SUBJECT INDEX

Page

1. OPINIONS BELOW 1

2. JURISDICTION 3

3. STATEMENT OF THE CASE 3

   (a) Present Litigation 3

   (b) Chronological Resume of Material Facts 6

   (c) Circumstances Surrounding Petitioner's Purchase of Gordon and Walcott Machines 10

   (d) Respondent's Activities after Final Decision in the cast of Gordon v. Walcott, supra 12

   (e) The Settlement between Respondent and Walcott Company 14

4. SPECIFICATIONS OF ERRORS ASSIGNED TO BE URGED 19

5. SUMMARY OF ARGUMENT 20

6. ARGUMENT 21

   A. POINT 1. On the Proposition That a Patentee After Making a Compromise Agreement with an Infringing Manufacturer May Rely Upon Birdsell v. Shaliol, 112 U. S. 485, to Mulct Innocent Customers of Such Manufacturer of Much Larger Sums Than Any Recovery Obtainable from the Manufacturer 21

Page

(a) Respondent Suffered No Damage from Petitioner's Use of the Infringing Machines and Offered No Proof of Damage 21

(b) Speculations of Master—re Damages 23

(c) The Gordon-Walcott Settlement Agreement .. 25

(d) Respondent's Laches in Giving Notice 32

(e) Birdsell v. Shaliol Does Not Apply to the Situation Here 34

B. POINT 2. On the Proposition That An Infringer Is Liable for Actual and Not Possible Gains .. 43

(a) The Opinions Below on this Point 43

(b) The Evidence on the Actual Use of the Extra Straightening Operation 46

(c) The Evidence on the Possibility of Altering the Infringing Machines 50

(d) The Physical Characteristics and Functioning of a Shaper as Compared with a Lathe Demonstrate the Necessity for Using the Extra Straightening Operation with the Latter 52

C. POINT 3. Apportionment 55

(a) The Opinions Below 55

(b) The Inclusion in the Infringing Machines of the Later Patented Automatic Melling Two-cut Mechanism 56

(c) The Inclusion in the Infringing Machines of the Valuable and Later Patented Blanchard Principle 59

Page

(d) The Tilting or Oscillating Tool Is Not Necessary or Essential to the Successful Functioning of the Infringing Machines 64

(e) Analysis of the Master's Opinion on Apportionment 65

(f) Decision of the Court of Appeals 69

7. CONCLUSION 78

Table of Cases Cited

Atlantic Works v. Brady, 107 U. S. 192 ..... 26, 27

Bassick v. Hollingshead Co., 298 U. S. 415 31
Birdsell v. Shaliol, 112 U. S. 485 ..... 21, 26
Blake v. Robertson, 94 U. S. 728 22
Blanchard v. Eldridge, 3 Fed. Cas. 622 61

Callaghan v. Myers, 128 U. S. 617 39
Carver v. Hyde, 16 Pet. 513, 41 U. S. 513 31
Christensen v. National Brake & Electric Co., 10 F. 2d. 856 68
Cincinnati Car Co. v. New York Rapid Transit Corp., 66 F. 2d. 592 73

Dean v. Mason, 61 U. S. 198 53
Deibel v. Heise & Schumacher, 46 F. 2d. 570 8
DeLaski & Thropp v. Empire R. & T. Co., 239 Fed. 139 39
Dowagiac Mfg. Co. v. Deere & Webber Co., 284 Fed. 331 38
Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U. S. 641 ..... 17, 40, 72
Duplate v. Triplex, 298 U. S. 448 67

Page

Egry v. Standard Register Co., 23 F. 2d. 438 67

Ford Motor Company v. Gordon Form Lathe Co., 87 F. 2d. 390 ..... 2, 4, 15, 63
Ford Motor Company v. Gordon Form Lathe Co., 90 F. 2d. 999 2

General Electric Co. v. Wabash Co., 304 U. S. 364 31
Gordon Form Lathe Co. v. Walcott Machine Co., 20 F. 2d. 673 ..... 3, 8
Gordon Form Lathe Co. v. Walcott Machine Co., 32 F. 2d. 55 ..... 3, 11, 15, 25, 28, 30, 62, 66
Gordon Form Lathe Co. v. Ford Motor Co., 133 F. 2d. 487 2

Keystone v. Adams, 151 U. S. 139 17
Knapp v. Morss, 150 U. S. 221 31
Kryptok Co. v. Stead Lens Co., 190 Fed. 767 39

Lincoln Engineering Co. v. Stewart Warner Co., 303 U. S. 545 ..... 31, 58
Lovejoy v. Murray, 3 Wall 1 36

MacDonald v. Hornblower and Weeks, 268 Mich. 626, 256 N. W. 572 37
Martin v. Friendly, 58 F. 2d. 421 8
Mason v. Graham, 90 U. S. 261 ..... 17, 68
McBride v. Scott, 132 Mich. 176, 93 N. W. 243 37
Mowry v. Whitney, 81 U. S. 620 54

Philadelphia, etc., Ins. Co. v. Edison Electric Light Co., 65 Fed. 551 39
Pope Mfg. Co. v. Gormully, 144 U. S. 224 29

Reo v. Gear Grinding, 42 F. 2d. 965 13
Rome Grader & Machinery Corp. v. Adams Manufacturing Co., 135 F. 2d. 617 33
Root v. Railway, 105 U. S. 189 21

Page

Sheldon v. Metro-Goldwyn Pictures Corp., 309 U. S. 390 ..... 17, 54, 77
Steam Stone Cutter v. Sheldons, 15 Fed. 608 35
Steam Stone Cutter v. Sheldons, 21 Fed. 875 35
Steam Stone Cutter Co. v. Windsor Mfg. Co., 17 Blatch C. C. 24 35
Stebler v. Riverside Heights Orange Growers' Association, 214 Fed. 550 38
Sunlin v. Skutt, 133 Mich. 208, 94 N. W. 733 37

Tilghman v. Proctor, 125 U. S. 136 ..... 16, 43, 54
Tompkins v. Erie, 304 U. S. 64 36

Union Tool Co. v. Wilson, 259 U. S. 107 41
Wagner Sign Service v. Midwest News Reel Theatres, 119 F. 2d. 929 41
Webster Electric Company v. Splitdorf Electrical Company, 264 U. S. 463 29
Westinghouse v. Wagner, 225 U. S. 604 ..... 17, 56, 68
Wine v. Enterprise, 297 U. S. 387 33

Statutes Cited

Revised Statute Sec. 4921 (35 U.S.C.A. 70) ..17, 22, 43, 54
United States Judicial Code, Sec. 24 (7), 28 U.S.C.A. 41 (7) 3

United States Judicial Code, Sec. 240 (a), 28 U.S.C.A. 347 3

IN THE

Supreme Court of the United States

OCTOBER TERM 1943

No. 49

No. 50

FORD MOTOR COMPANY,

Petitioner

vs.

GORDON FORM LATHE COMPANY,

Respondent

BRIEF FOR PETITIONER

---

1. OPINIONS BELOW

This case comes before this Court by reason of the granting of the writ of certiorari to review a decision of the Sixth Circuit Court of Appeals in the cases (cross appeals) of *Ford Motor Company v. Gordon Form Lathe*

Company, and *Gordon Form Lathe Company v. Ford Motor Company*, 133 F. 2d 487; R. Vol. V.)* rendered in a patent accounting. After the original grant of certiorari, limited to the first question presented only, petitioner secured by rehearing, certiorari as to the second and third questions, also.

The opinion of the District Court (Eastern District of Michigan, Southern Division, Judge Tuttle) delivered orally on exceptions to the Master's Report is not reported but will be found at R. 118-131. The Master's Report is reproduced at R. 4-99.

Opinion of the Sixth Circuit Court of Appeals on the main case of validity and infringement of the patent in suit No. 1,542,803 *Gordon Form Lathe Company v. Ford Motor Company* is reported at 87 F. 2d 390, and is reproduced in R. Vol. V., pp. 1 to 26.

Decision on rehearing *Ford Motor Company v. Gordon Form Lathe Co.*, 90 F. 2d. 999, the oral opinion of the District Court, delivered at the conclusion of the main trial is not reported.

An earlier opinion of the Sixth Circuit Court of Appeals involved the same patent in suit and was brought

---

*The record here is in five volumes, Vols. I, II, III, being paged 1 to 426, inc., 427 to 882, inc., and 883 to 1403, inc., respectively, and containing the transcript of the evidence before the Master. Volume IV, paged 1404 to 1700, inc., containing reproductions of the exhibits introduced, and Vol. V, paged 1 to 26 containing the proceedings in the Circuit Court of Appeals. References herein to pages in the first four volumes will be as follows: R. ....., and to the proceedings in the Court of Appeals as R. Vol. V.....

by respondent against the manufacturer from whom petitioner purchased its infringing machines, i.e., lathes for turning automobile engine cam shafts, *Gordon Form Lathe Co. v. Walcott Machine Co.*, 32 F. 2d 55; an appeal from the District Court for the Eastern District of Michigan, Southern Division, *Gordon Form Lathe Co. v. Walcott Machine Co.*, 20 F. 2d 673, opinion by Judge Simons.

2. JURISDICTION

1. This is a suit arising under the patent laws of the United States, Judicial Code, Sec. 24 (7) (28 U.S.C.A. 41 (7)).

2. The jurisdiction of this Court is invoked under Sec. 240 (a) of the Judicial Code as amended by the Act of February 13, 1925 (28 U.S.C.A. 347).

3. The date of the judgement which petitioner seeks to have reviewed is February 4, 1943.

4. The writ of certiorari was granted by this Court June 7, 1943; rehearing granted June 21, 1943.

3. STATEMENT OF THE CASE

(a) *THE PRESENT LITIGATION*

Your petitioner, Ford Motor Company, was made defendant in a patent infringement action by respondent, the Gordon Form Lathe Company, as plaintiff, in the United States District Court for the Eastern District of Michigan, Southern Division, alleging infringement of the Gordon and Redlin, United States Letters Patent No.

1,542,803 granted June 16, 1925 (Ex. 2*, R. 1655-69). The patent relates to a lathe for turning so-called non-geometric articles and specifically the individual cams located in different angular positions along a camshaft for operating the intake and exhaust valves of an internal combustion engine in proper sequence. It was alleged that certain lathes purchased in the open market by the Ford Motor Company from a manufacturer known as the Walcott Machine Company, constituted an infringement and that other machines, not lathes, but milling machines, developed by petitioner, and known as the Pioch milling machine, also infringed. The Pioch machines were those adopted by petitioner after it ceased to use the Walcott lathes, here involved, which it did shortly after notice of infringement was served on it in June 1929. The District Court in an unreported oral opinion held that both the Walcott lathes** and Pioch milling machines infringed the patent.

On appeal to the Sixth Circuit Court of Appeals, the holding of infringement by the Ford Company as to the Walcott lathes was sustained but the holding of infringement by the Pioch milling machine was reversed (*Ford Motor Company v. Gordon Form Lathe Co.*, 87 F 2d 390; R. 1358-65).

---

*As the printed transcript of the evidence as contained in Vols. I and II was reduced considerably by stipulation (R. 1382-1394) references to pages of the record where exhibits were offered in evidence can not in all cases be given in accordance with Rule 27 (3) as to many of the exhibits referred to herein.

**These lathes are referred to in the record both as the "Walcott" and "Melling," the former being a contraction of the manufacturer's corporate name, while the latter is the surname of the inventor of the lathe. In this brief they are consistently referred to as the "Walcott" lathe.

The case was then referred to a Special Master "to take and report an account of such profits, gains and advantages of the defendant, and the damages sustained by the plaintiff by reasons of said infringement, and to compute and report a reasonable royalty for the use of the said machines" (R. 3).

After due proceedings had, the Master rendered a report (R. 4-99) recommending that the respondent was entitled to its choice of the sum of $206,824.22 as profits allegedly realized by petitioner Ford Motor Company or $120,000 as reasonable royalty (R. 93). The sum of $206,824.22 was reached by adding to the alleged savings of $86,198.33 in direct labor costs, the amount of $120,625.89 as alleged savings made by petitioner in overhead or burden costs. The entire manufacturing burden percentage, used by petitioner in its cost accounting system during the infringing period solely for the purpose of establishing selling prices for its manufactured products, and in order that huge annual expenditures for such items as taxes and other indirect expenses, the amount of which could not possibly be affected by the infringement, was added by the Master to the alleged savings of direct labor costs.

Both parties filed exceptions to the Master's report (R. 101, 103) and on final hearing the District Court disallowed the addition by the Master of the $120,625.89 as alleged savings of overhead or burden (R. 118-129), but in all other respects affirmed the Master (R. 1367-8, Par. 7 and 9).

Cross appeals were taken to the Sixth Circuit Court of Appeals (R. 1369, 1371, 1373, 1376). That Court in the judgment here sought to be reviewed in effect adopted the Master's report in toto, reinstating the item of burden $120,625.89 (R. Vol. V, 26).

(b) *CHRONOLOGICAL RESUME OF MATERIAL FACTS*

As the history of the patented invention, and of petitioner's relation to it bears importantly on the questions here presented for consideration, the following statement of material facts chronologically arranged is presented.

Long before Gordon's invention, and as early as 1914, the Ford Company had adopted, and continuously used until 1924 (R. 7-8) for the production of millions of camshafts, for the old Model T Ford cars a machine known as a *shaper* (R. 142, 1098-99, Ex. 52, R. 1687; Ex. 62, R. 1694; Ex. 63, R. 1695).

In 1917 the Ford Motor Company began the production of the well-known Fordson tractor (R. 1114). It is by now a matter of such common knowledge the Court may take judicial notice of it that petitioner, Ford Motor Company, was, as stated by the witness Brush, (himself a pioneer in the automotive industry) "the pioneer in this country at least, and I think in the world, in having machine tool designers build machine tools where the whole machine tool was specialized to a single—very often a single operation, on a single work piece." (R. 762). Because of the fact that the Fordson tractor production was but from 400 to 500 per day as compared with the model T production of 8000 to 8500 a day (R. 623), it was not considered advisable to build any special equipment for it at that time (R. 1102) and inasmuch as all of the shapers, which were special purpose machines, were being used on model T production, there were none available for use on the model F. shafts, (R. 1127) and moreover as it was during war time and the Ford Company was in a hurry to have the necessary available machinery, it merely pur-

chased grinders which could be obtained on the open market for the rough finishing of the cams of the camshaft shapers (R. 1098).

In addition to rough grinding the camshafts for Fordson tractors, the Ford Company also farmed out to other companies the job of machining its *tractor* camshafts. Among the companies to which the Ford Company let contracts for machining its tractor camshafts was the Jackson Motor Shaft Company of Jackson, Michigan—not otherwise related to petitioner. To this company in the latter part of 1919 came Mr. Redlin, Gordon's co-inventor, who induced it to purchase a machine constructed in accordance with the Gordon patent in suit, which was delivered in the early part of 1920. Mr. Gordon's son accompanied the machine in and worked on the machine when it was set up to do the Fordson camshaft job, and found it impossible to make the machine do that work (R. 1262). Because of the failure of this first machine, respondent, or its then representatives, shipped the machine back and sent out another machine which also proved to be a failure, although respondent's representative, Mr. Goddard, spent a number of weeks trying to get the machine to work. (R. 1262). The Jackson Motor Shaft Company attempted to operate these machines for some five or six months (R. 1267), but, finding them too costly and inefficient, returned to grinding the cams (R. 1263, 1272, 1288).

At the time the Jackson Motor Shaft Company was attempting to operate the Gordon and Redlin lathes, it had done considerable business with one Herman W. Melling and he was called in by that company to see if he could assist them in their endeavors to make the Gordon-Redlin machine operate satisfactorily. This is referred to in

the opinion of Judge Simons rendered July 22, 1927, in the suit of the *Gordon Form Lathe Company v. the Walcott Machine Company* as follows:

> " • • • Melling, a mechanic of considerable ingenuity and experience, was called in to examine a Gordon and Redlin lathe in operation at the plant of the Jackson Motor Shaft Company, which was not performing as expected. He concluded upon examination, that it was wrong in principle, mode of operation and mechanism, and that it could not be made to work properly. Being familiar with grinding machines, and with the old Blanchard lathe, he set about to design a cam cutting machine which should be built upon principles that to him seemed sound, he designed a cam cutting lathe and attempted to secure a patent on his device" (20 F. 2d 673).

Melling designed a cam turning machine which was built by the Walcott Machine Company for the Jackson Motor Shaft Company, installed in their plant and operated satisfactorily. On October 13, 1920, Melling made application for a patent on his machine.

After Melling filed, an Interference between Melling's application and the application filed by Gordon and Redlin for the patent in suit was declared. In accordance with the usual Patent Office practice, the claims which formed what are called the counts of the Interference were given the broadest possible interpretation for the purpose of determining the sole question presented in a Patent Office interference, namely, that of priority of invention.

Martin v. Friendly, 58 F. 2d 421;
Deibel v. Heise & Schumacher, 46 F. 2d 570.

As Melling could not establish as early a date of invention as Gordon, he tried to have the interference dissolved, urging *inter alia* that the Gordon machine was inoperative. But as it has long been the established rule of the Patent Office and the Courts that but a very slight degree of operability (rather than commercial availability) is required to support patentability, the Patent Office denied Melling's motion to dissolve the interference. This decision of the Patent Office was rendered November 14, 1922. The Interference appeals through the various tribunals of the Patent Office and to the Court of Appeals of the District of Columbia were decided adversely to Melling on the question of priority. We mention these proceedings in connection with the struggle between Melling and Gordon in the interference proceedings because of the fact that counsel for respondent has heretofore argued repeatedly in this case, particularly before the Master, that the question of operativeness of the Gordon machine is foreclosed in this suit. The findings however made by the various tribunals in the interference proceedings and indeed in the case of *Gordon v. Walcott,* however justified they may have been on the broad question of operability, were based on a different record than now presented to this Court for it is now shown that respondent's machine was not only not capable of doing petitioner's work, but that others had a like experience with it so that at the time of the trial of the main case against this petitioner Mr. Gordon was compelled to admit that he did not know of any place where one of his machines was operating (R. 290).

At or about the same time that respondent sold one of the machines of the patent in suit to the Jackson Motor Shaft Company, it also induced the International Harvester Company to buy one of them. The experience

of the International Harvester Company was the same as that of the Jackson Motor Shaft Company. The Gordon patented machine proved so inefficient and costly to operate that International Harvester also relegated the patented machine to the scrap pile and returned to the use of a grinding machine for the rough machining of the cams of its camshafts (R. 1130-1170, 1271-1299).

(c) *CIRCUMSTANCES SURROUNDING PETITIONER'S PURCHASE OF GORDON AND WALCOTT MACHINES*

As early as July 15, 1922 petitioner ordered a patented Gordon machine, the price of which was set at $4335 (Ex. 56, R. 1043). This machine was delivered to the petitioner on May 16, 1923 (Ex. 55, R. 1690), and remained in the Ford plant until the 30th of July 1924, except for a period from August 1923 until December 1923 when the machine was returned to the manufacturer to permit, under respondent's direction, the making of such alterations, repairs, overhauling or rebuilding as would put the machine in condition to properly perform its intended function of machining the petitioner's camshafts. In January 1924, after the Gordon machine had been in respondent's possession for four months and was then returned to the Ford Company and had again demonstrated its inability to cut the Ford Company cams properly, in spite of all the inventor could do to make it work (R. 286-7), the Ford Company purchased two of the Walcott machines subsequently held to infringe. One of these was purchased for the purpose of machining the cams of the Ford Company's Model F-446 Tractor Camshaft (Ex. 218, R. 1568) and the other (Ex. 217, R.

1567) for the purpose of machining the cams of the Model T-410 Camshafts.

In April 1924 sixteen additional Walcott machines were purchased by the Ford Company, fifteen thereof being for the Model T Camshaft (Ex. 219, R. 1569) and one for the Model F Tractor Camshaft (Ex. 220, R. 1571). The two machines purchased in January were priced at $4150 each and the sixteen machines bought in April were priced at $4000 each. All sixteen of these machines were purchased long before the issuance of the Gordon patent which came out on June 16, 1925.

Shortly after the issuance of the patent, suit was brought by the respondent against the Walcott Machine Company, manufacturer of the machines in question, in the District Court for the Eastern District of Michigan, and after trial and on July 22, 1927 Judge Simons handed down his opinion (20 F. 2d 673) correctly holding the Walcott machines to be non-infringing; an appeal from Judge Simons' decision having been taken, the Sixth Circuit Court of Appeals reversed Judge Simons in its opinion handed down *April* 12, 1929 (*Gordon v. Walcott*, 32 F. 2d 55).

When the Ford Company discontinued the manufacture of its old Model T cars and changed over to the production of the Model A Ford car in the latter part of 1927, all of the original model T camshaft shapers had been scrapped (R. 624) and replaced by the Walcott machines that were purchased in 1924.

In the latter part of 1928 and early in 1929 petitioner purchased six additional Walcott machines at a price of $5950 each (Exs. 221-222, R. 1567-73). These were pri-

marily purchased for the purpose of using them to perform a third or finishing cut upon the Model A camshafts. This third operation was contemplated because it had been found in the manufacture of the Model A camshafts during the year 1928 that an excessive amount of grinding time had been required because of the difficulties encountered in the turning of the Model A camshafts on the Walcott machines (R. 403, 625); petitioner having found from experience that greater difficulty was encountered in turning the Model A shafts on the Walcott machines than had been experienced with the Model T. These six additional machines, however, were never used for this contemplated third operation (R. 431).

(d) *RESPONDENT'S ACTIVITIES AFTER FINAL DECISION IN THE CASE OF GORDON V. WALCOTT, SUPRA*

After the Court's decision in the Walcott case, respondent sent notice of infringement to petitioner, such notice being dated June 12, 1929 (Ex. 48, R. 1684-86). The decree in the *Walcott* case was filed June 24, 1929. There being a balance due by petitioner to the Walcott Machine Company for the purchase of the six additional machines bought by it in 1929 and as all of petitioner's machines were purchased under a patent guarantee clause by the terms of which the Walcott Company agreed to hold petitioner harmless (Ex. 296, R. 1610. Of. 973, also R. 976-8, R. 1183-4), petitioner wrote the Walcott Company of the infringing notice and stated that it would expect the Walcott Company to stand back of its guarantee; petitioner also held up payment of the balance due the Walcott Company of $5926.62. On July 30, 1929, the

Walcott Company wrote a letter to petitioner, introduced in evidence in the main trial as Defendant's Exhibit 64 (R. 1696, Of. 949), requesting the payment of the balance due and stating:

> "• • • You have no doubt been informed of the plan for the purchase of the Gordon-Redlin patent which will eliminate any cost or damages to the Ford Motor Company."

After this decision of the Court respondent proceeded to file a large number of suits in the Sixth Circuit against various automotive manufacturers who were members of the then Automobile Chamber of Commerce—which had taken over the defense of respondent's suit against the Walcott Company (R. 519, 932). Since the Sixth Circuit Court of Appeals had held in the case of *Reo v. Gear Grinding*, 42 F. 2d. 965, that the assumption of the defense of a patent infringement suit by the Automobile Chamber of Commerce rendered any decision in such a suit *res judicata* against all of the members of the Chamber, settlements were made with the respondent by the automotive manufacturers. One of such settlements was made by the White Motor Company of Cleveland early in 1930 (Ex. R.R., R. 1531-43; see also Gordon R. 278-280, Jones R. 296-304, Dahl R. 512-526, Michael R. 963-969). A similar settlement was also made by the J. I. Case Company with respondent at about the same time (R. 1544-48). Another settlement was also made between the Nash Motors Company and respondent (R. 1548-1551). The Chrysler Company had also settled with respondent in the summer of 1929 (R. 1527-1530). Petitioner was not a member of the Chamber of Commerce, and was unaffected by the decree in the *Walcott* case.

After having made its settlements with Chrysler, White, Case and Nash, respondent then proceeded on to negotiate a settlement with General Motors Corporation which resulted in the agreement dated October 30, 1930, reproduced in full on pages 1552 to 1557, R. Vol. IV, under the terms of which respondent assigned to General Motors all rights of respondent in and to the patent in suit *except the right of the respondent to proceed against this petitioner;* so that at the time the suit was started by respondent against the petitioner Ford Motor Company in November, 1930, the only business of the respondent was that of the prosecution of this lawsuit. (It has never sold any machine since the patent issued.) (R. 284.)

(e) *THE SETTLEMENT BETWEEN RESPONDENT AND WALCOTT COMPANY*

In the meantime, however, respondent had entered into a compromise with the manufacturer of the machines, as found by the Court of Appeals:

> "The Gordon Company entered into a compromise settlement with the Walcott Company which had become financially involved. By the terms of the settlement the Gordon Company accepted $1.00 for all claims of infringement and waived an accounting. In an amended final decree the Walcott Company was ordered to pay the Gordon Company $4,000 costs." (R. Vol. V, 4.)

Although respondent knew of the Ford Company's use of the camshaft *shaper* for making camshafts, as its president Gordon testified he had seen them operating in 1915 and in 1920 (R. 319-20), and although the machines constructed strictly in accordance with the disclosure of the Gordon patent in suit had proven to be a complete failure for the *machining* of petitioner's cam-

shafts, as had been held by the Sixth Circuit Court of Appeals, *Gordon v. Ford*, 87 F. 2d 390, and had likewise proven to be a failure at the Jackson Motor Shaft Company and International Harvester, which found the patented machine so costly and inefficient that both returned to grinding the cams (R. 1130-1170, 1263, 1267, 1271-1299), nevertheless, respondent introduced evidence in the *Walcott* case, tried in 1927, to show that no machine, except a grinder, had been used for roughing off the cams of a camshaft and induced the Court of Appeals to hold in that case that the patentees, Gordon and Redlin, were "pioneers", and that, prior to Gordon's invention, the cams of automobile camshafts were always roughed-off by a *rough grinding* operation, as distinguished from *machining* them, so that the Court of Appeals stated:

> "Such grinding operations were expensive, dirty, and to some extent dangerous and Gordon conceived the idea of substituting a turning operation for the initial rough grinding." (32 F. 2d 55; R. 1347.)

Now to the contrary, it is shown that Ford had, prior to the patent in suit, *machined* the cams by the use of a shaper and therefore that the patented machine was not in any sense a pioneer.

Throughout the accounting proceedings in the instant litigation, respondent agreed that the prior Ford camshaft shaper was a proper standard of comparison for the machining of the Model T camshafts, yet in an effort to support a claim of approximately a million dollars, it insisted that the worst and most costly standard of comparison, viz, the grinding method (by the use of Landis grinders) should be taken for the machining of the Model A Ford and Fordson tractor camshafts (R. 20).

As to the Model A shafts the Master (R. 32), the District Court (R. 118), and the Court of Appeals (R. Vol. V, 19) in this litigation ruled against respondent's contention and accepted the *shaper* as a proper standard of comparison for both the Model T and Model A shafts but refused to accept it for the *tractor* shaft, holding that as Ford had actually used the Landis grinder for the tractor shafts, this made the grinder the sole standard for these shafts (R. 35; and Vol. V, 19), the Court of Appeals contra to the rule of *Tilghman v. Proctor*, 125 U. S. 136, erroneously stating that—

> "The predicate of the standard of comparison is that the trespasser would have used the comparative device but for his infringement • • •." (R. Vol. V, 19.)

Petitioner filed an account showing that, instead of deriving any profits, gains or advantages from the use of the infringing Walcott machines, it suffered a loss of approximately $96,000 as compared with the results of using the old shapers (R. Vol. V, 8). The difference between the Master's finding of some $86,000 savings and such loss is due largely to the fact that in the account rendered by petitioner there was included the cost of a straightening operation actually employed by petitioner when it used the Walcott lathes but which straightening operation was not employed when it used the older Ford camshaft shapers (R. 429, 436-441, 486, 500-1, 534-39, 543, 545-47, 652-56, 768-772, 1111; also Exs. M and N, 1432-1435).

In that part of his report affirmed by both the District Court and the Sixth Circuit Court of Appeals, the Master found as a fact that the straightening operation was used by the Ford Company (R. 40) but he refused to allow the extra cost of this operation, stating that petitioner *could*

have made changes in construction of the infringing machines which might have eliminated the use of the extra straightening operation (R. 41). The Court below sustained the Master's finding on this point (R. Vol. V, 20-21).

Petitioner introduced in evidence the patents to Melling Nos. 1,512,995 (Ex. 312; R. 1640-47, Of. 1171), and 1,655,655 (Ex. 209; R. 1558-66, Of. 382), and showed that the inventions thereof were embodied in the infringing Walcott machines (R. 382-84, 387-88, 1171-2). Petitioner also introduced evidence showing that the inclusion of the inventions covered by these two patents (recognized by the Patent Office to be patentably distinct over the claims of the Gordon-Redlin patent) were entirely responsible for those differences in operation between the infringing Walcott lathes which rendered them useful to and usable by petitioner (R. 782, 783, 794), whereas the patented Gordon machine was found to be unusable by, and devoid of any utility to, petitioner (87 F. 2d 390). As respondent made no effort to meet the above proofs, petitioner relying upon the many decisions of this court,* urged that respondent could not recover all of the alleged profits but only those "to which the complainant was justly entitled", and that the burden of proof rested upon respondent to apportion and prove the amount of profits attributable to the infringement (35 U.S.C.A. 70; RS. 4921). Respondent made no attempt to meet this burden but, claiming that the rule of apportionment does not apply to a case where the patent covers a unitary

---

**Mason v. Graham*, 90 U. S. 261; *Keystone v. Adams*, 151 U. S. 139; Westinghouse v. Wagner, 225 U. S. 604; *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U. S. 390, *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U. S. 641.

device (R. 60), it submitted no evidence on apportionment, relying solely on its legal contention that the doctrine of apportionment was not applicable here, and that therefore it was entitled to all the alleged profits (R. 69-70).

Although in the *Walcott* case, the Court below held the patent to be a pioneer, it was careful to state that the gist of the Gordon invention resided in the *means for tilting the lathe tool as the work rotated* so as to present the tool at all times on a line extending normal to the point of contact of the cutting edge of the tool with the work piece (32 F. (2d) 57, R. 1357) and in its later opinion the Court reiterated this holding and further held that the patentees were not entitled to all means for producing the desired result (87 F. (2d) 392, 1st col., R. 1364-5).

For the purpose of showing that the tilting of the tool was not essential in the operation of the infringing machines, petitioner introduced in evidence (R. 1172) the Melling patent No. 1,634,550, granted July 5, 1927 (Ex. 313, R. 1648-52, Of. 1174), in which the tool, instead of being maintained normal to the work by a tilting movement, is moved up and down in a straight-line, reciprocating path while being simultaneously moved horizontally back and forth from the work; and introduced evidence proving that a large number of lathes embodying the non-tilting tool construction of this patent was made by the Walcott Company (Ex. 314, R. 1653, Of. 1174) (without suit or even threat of suit on the patent here involved), and used extensively in the automotive industry and that by making the change from the tilting movement of the tool to the straight line movement thereof, the production of the lathes was increased (R. 1175).

The alternative amount of $120,000 awarded below as "reasonable royalty" is predicated upon the figure of $5,000 per machine for the use of twenty-four machines for but a fractional part of the life of the patent i.e. from 1924 to 1930-31 (R. Vol. V, 3 and 25). The evidence showed that although respondent sold a number of its patented machines, in no case did it ask for, or receive, a royalty for the use of the machines, but that instead all such machines were sold outright (R. 281-2)—free and unrestricted—for a lump sum selling price *which included an established royalty of* 10% *of said selling price paid to the patentee* (R. 317-18) to cover the manufacture and sale as well as the use of each patented machine so sold. Petitioner's use of the infringing machines ceased in 1931 (R. 95), whereas the patent ran until 1942.

4. SPECIFICATIONS OF ERRORS ASSIGNED AND TO BE URGED

The Court below erred:

1. In mulcting petitioner of a large sum based upon use of the machines, after respondent had settled with the manufacturer thereof for the manufacture and sale.

2. In disallowing the cost of an additional operation actually employed by petitioner in the use of the infringing machines.

3. In holding that respondent was entitled to recover all of petitioner's alleged profits resulting from the use of the infringing machines.

5. SUMMARY OF ARGUMENT

1. If a patentee, who obtains a judgment of infringement against a manufacturer who has sold infringing machines in the open market to the public, enters into a voluntary compromise with such manufacturer, the effect of which is to release such manufacturer, and at the time of such compromise the patentee has full knowledge of the use of the infringing machines by a user, he may not then proceed to recover from such user for alleged profits or damages resulting from the mere use of the machines, particularly when there was included in the sales price of all of the patented machines sold by the patentee, a royalty covering manufacture, sale and use, and when such patented machines were sold outright with no restriction upon the use thereof.

2. In determining the amount of the alleged profits made by the user of an infringing machine, the expense of using such machines must be ascertained by the manner in which the said user in fact conducted its business and not by the manner in which it might have conducted its business, and, therefore, the cost of an additional operation found to have been actually employed during the infringing use cannot be disregarded and the cost of such operation disallowed on the ground that had the user employed additional mechanism, not in fact actually employed by it, the necessity for such additional operation might have been eliminated.

3. After the Master, the District Court and the Court of Appeals all adopted concurring fact findings to the effect that the patented machine was not usable by petitioner, that the infringing machines which it did use con-

tained additional patented improvements of others and petitioner has shown these improvements were entirely responsible for the better performance of the infringing machine over the patented machine which rendered the infringing machine commercially practicable and usable by petitioner, whereas the patented machine had no utility for petitioner, the patentee-respondent is not justly entitled to recover all of the profits which resulted from the inclusion in the infringing machine of the additional patented improvements which were not the property of the patentee but of others.

6. ARGUMENT

A. *POINT 1. ON THE PROPOSITION THAT A PATENTEE AFTER MAKING A COMPROMISE AGREEMENT WITH AN INFRINGING MANUFACTURER MAY RELY UPON BIRDSELL V. SHALIOL, 112 U. S. 485, TO MULCT INNOCENT CUSTOMERS OF SUCH MANUFACTURER OF MUCH LARGER SUMS THAN ANY RECOVERY OBTAINABLE FROM THE MANUFACTURER.*

This point goes to the entire recovery (in the alternative) of both profits and damages.

(a) *Respondent suffered no damage from petitioner's use of the infringing machines and offered no proof of damage.*

It should be clearly borne in mind that although a great number of technicalities have been built up throughout the years and interjected into the practice and administration of the patent law, an action for patent infringement is fundamentally nothing but the old common law action of trespass on the case. The position of a defendant in a patent suit is that of a tort feasor (*Root v. Railway*, 105 U. S. 189). If the action is brought

at law, recovery for infringement is limited to the actual damages suffered by the plaintiff as a result of the infringement and such damages "must be proved; they are not to be presumed." *Blake v. Robertson,* 94 U. S. 728, 733. If the action is in equity, the plaintiff may, under the provisions of Sec. 4921 R. S. (35 U.S.C.A. Sec. 70), recover either damages or profits. In the instant case no proof whatsoever was presented by respondent to establish any actual damages. The facts being as they were, namely; that the plaintiff-respondent Gordon Form Lathe Company was engaged in the manufacture and sale of machines constructed strictly in accordance with the specification and drawings of the patent in suit; that respondent sold such machines outright for a purchase price which included a 10 percent royalty and placed no restriction whatsoever on the use of the machines in the hands of its purchasers, the only actual damage which respondent could have suffered from any infringement of its patent would have been either lost sales or loss of its established royalty on sales of machines that might otherwise have been made by it. It submitted no proof whatsoever of any lost sales but throughout the proceedings below rested upon the proposition (contra *Blake v. Robertson, supra*) that when infringement has been found damage will be presumed.

The petitioner was not engaged in either the manufacture or sale of the infringing machines and the charge and holding of infringement was based entirely upon the *use* by the Ford Motor Company of a number of machines which it purchased in the open market from the manufacturer thereof. (R. Vol. V, p. 5.)

Obviously any actual damage resulting from lost sales is not damage inflicted upon the patentee by the *purchaser*

of an infringing machine who merely buys the machine for the purpose of using it. The closest respondent came to make any proof whatsoever of damages was the testimony given by the respondent's President and inventor, Gordon, who, when asked why his Company did not manufacture or sell any machines after the issuance of the patent in suit, stated that "the competition we were up against with the Melling people made it so that we did not feel it would be profitable." (R. 282-3.) He was next asked whether the purchase by the petitioner of the infringing machines in 1924 had any part in contributing to the determination not to manufacture and sell, to which he replied that that was "what finally determined that we would not go ahead manufacturing any more." (R. 283). Upon cross-examination he admitted the unsatisfactory nature of his machine which had been thoroughly tried out and had so thoroughly proved a complete failure for the manufacture of the products of the Ford Motor Company. (R. 283). This, we submit, was the real reason for respondent's withdrawal of its machine from the market. There was a better machine, which instead of being an abject failure, would do the work satisfactorily.

(b) *Speculations of Master—re Damages.*

The Master in his report indulged in a pure speculation in stating that "there is no reason to suppose that if defendant and others had not infringed plaintiff's patent the plaintiff and the Walcott Company would not have reached an agreement under which the cam turning lathes with the Walcott improvements would have been supplied to the trade, with each Company sharing in the proceeds" and then stated—" • • • the *probability* exists

that defendant's infringment caused substantial damage to plaintiff, * * *." (R. 74.)

That respondent's machine was a failure in petitioner's plant is thoroughly established (*supra* p. 23). The record shows that it was given several months' trial by the Ford Company, was then taken back by the respondent to be rebuilt and reconditioned, was then returned for further trial under the direct supervision of its inventor Gordon, and still remained as complete a failure after Gordon tried for several weeks to make it do its intended job (*supra* p. 10).

The inference is, therefore, inescapable that the complete failure of the machine in the plant of the Ford Motor Company, and also in the Jackson and International Harvester plants, had more to do with the respondent's determination not to continue in any further manufacture and sale than the purchase by Ford of the infringing machines or the competition offered by the infringing Melling-Walcott machine.

Obviously petitioner can in no wise be charged with damage to respondent because of the competition of the Walcott Company. There is no basis whatsoever for the Master's conclusion that if petitioner and others had not infringed respondent's patent the respondent and the Walcott Company might have reached an agreement under which the cam turning lathes with the Walcott improvements would have been supplied to the trade with each Company sharing in the proceeds. As far as the "others" are concerned, surely petitioner is not, and cannot in any sense, be held responsible for their infringement.

(c) *The Gordon-Walcott settlement agreement.*

It is not shown that petitioner placed any impediment in the way of respondent and the Walcott Company reaching an agreement but the record establishes the contrary. When the Ford Motor Company called upon the Walcott Company to stand back of its patent guarantee clause, it was told that the Walcott Company was endeavoring to reach an agreement with the respondent (*supra p.* 12, 13). The record further establishes that after the Circuit Court of Appeals decided in the case of *Gordon Form Lathe Company v. Walcott Machine Company,* 32 F. 2d 55), to the effect that the Walcott machines infringed the patent, respondent and the Walcott Company did reach an agreement, but not the type of an agreement suggested by the Master. Instead the agreement that was reached was this, as stated by the Court of Appeals in the opinion here sought to be reviewed:

> "• • • The Gordon Company entered into a compromise agreement with the Walcott Company which had become financially involved. By the terms of the settlement the Gordon Company accepted $1.00 for all claims of infringement and waived an accounting. In an amended final decree the Walcott Company was ordered to pay the Gordon company $4000 costs." (R. Vol. V, 4.)

Just what was decided upon between the Gordon Company and the Walcott Company at the time this "compromise agreement" was entered into and the decree, prepared by counsel for respondent (R. 970), was filed in the District Court in the *Walcott* case (R. 1670-72) by the terms of which the Gordon Company accepted $1.00 for all claims of infringement and $4,000 as costs, and waived an accounting, does not appear from the record, but the record does show the Walcott Company assured

petitioner, over a month later, that there was a "plan * * * which will eliminate all cost or damage to the Ford Motor Company" (Ex. 64, R. 1696). Whatever such plan was it hardly could have been for the purpose of enabling respondent, by placing its reliance upon the case of *Birdsell v. Shaliol,* 112 U. S. 485, to claim that as it had not received full compensation for the infringing manufacture and sale by the Walcott Company it could, therefore, proceed against petitioner and mulct it under the guise of profits, of sums much larger than any recovery respondent could possibly have obtained had it pursued its lawful remedies against the Walcott Company.

We believe the oft-quoted language of Justice Bradley in the case of *Atlantic Works v. Brady* is particularly apposite here:

> "The process of development in manufacture creates a constant demand for new appliances, which the skill of ordinary head-workmen and engineers is generally adequate to devise, and which, indeed, are the natural and proper outgrowth of such development. Each step forward prepares the way for the next, and each is usually taken by spontaneous trials and attempts in a hundred different places. To grant a single party a monopoly of every slight advance made, except where the exercise of invention somewhat above ordinary mechanical or engineering skill is distinctly shown, is unjust in principle and injurious in its consequences. * * * It was never the object of those laws to grant a monopoly for every trifling device, every shadow of a shade of an idea, which would naturally and spontaneously occur to any skilled mechanic or operator in the ordinary progress of manufactures. Such an indiscriminate creation of exclusive privileges tends rather to obstruct than to stimulate invention. It creates a class of speculative schemers who make it their business to watch the advancing wave

of improvement, and gather its foam in the form of patented monopolies, which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the art. It embarrasses the honest pursuit of business with fears and apprehensions of concealed liens and unknown liabilities to lawsuits and vexatious accountings for profits made in good faith." *Atlantic Works v. Brady* 107 U. S. 192.

Although it is true that the Court of Appeals in the case of *Gordon v. Walcott, supra,* held Gordon and Redlin to be pioneers, the Court was induced to make this holding because the facts known to respondent, the Gordon Company were not fully presented to the Court. Although respondent knew full well that its machine had proved to be a total failure in petitioner's plant, in the plant of the Jackson Motor Shaft Company and also at the International Harvester Company, and although it knew of the prior use of the shapers in petitioner's plant, it suppressed those facts and led the Court to believe that the patented machines was the first machine that had ever been used to *machine* automobile camshafts and that it had proved highly successful in actual practice.

The District Court, Judge Simons, in the main trial in the case of *Gordon v. Walcott, supra,* referred to the fact that Melling the inventor of the infringing Walcott machines, concluded after examining a patented Gordon machine that it was "wrong in principle, mode of operation and mechanism and it could not be made to work properly." The evidence here fully corroborates this conclusion (*Supra* 8). See also Ohrn R. 1138, Hajovich, 1154, 1162-1163).

Judge Simons further referred to Melling's familiarity with the old Blanchard lathe. The old Blanchard lathe was patented in 1819 and the subject matter thereof became free and open to the public upon the expiration of the Blanchard patent. The Sixth Circuit Court of Appeals in its opinion recognized that Melling's inclusion of the Blanchard principle in the infringing Walcott machines "was doubtless a patentable improvement." *Gordon v. Walcott*, 32 F 2d 55, 61.

There was introduced in evidence during the accounting proceedings a copy of the Melling patent No. 1,655,655 which covers the application of the Blanchard principle to a camshaft cutting lathe and the evidence showed that this construction admittedly was fully incorporated into the infringing machines. (R. 382-84). We also introduced in evidence the Melling patent No. 1,512,995 relating to an automatic mechanism for causing the tool to perform two cuts upon the work and with respect to which the respondent's inventor, Gordon, admitted that Melling was "smarter" than he was (R. 369, 387-388).

We further introduced (R. 1174) in evidence the Melling patent No. 1,634,550 and also the drawing Ex. 314 (R. 1653, Of. 1174) and showed that machines constructed in accordance with patent No. 1,634,550 did not employ the tilting of the tool and that substitution of tool carrying heads of the type shown in the 1,634,550 Melling patent for the tilting type heads of the machines held to infringe, did not reduce their output.

We further introduced (R. 1180) in evidence the drawing, Ex. 315 (R. 1654) of the Walcott Machine Company showing that by using a tool with a perfectly straight line reciprocation and still embodying the Blanchard prin-

ciple it is capable of producing even a greater output, the purpose of introducing Exhibits 313, 314 and 315 being to show that the tilting of the tool was not essential to the successful operation of the infringing machines.

The situation in the case at Bar, therefore, is one in which the language of Justice Bradley, quoted above is, we submit, quite apposite.

Later on Mr. Justice Brown, dealing with the same general subject matter, impresses upon us the importance of the public right that enters into the consideration of the purely personal rights of the particular litigants, in the following language:

> "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly." *Pope Mfg. Company v. Gormully*, 144 U. S. 224, at 234, 36 L. Ed. 414, page 418.

Still later, this Court, by Mr. Justice Sutherland, again considering the great importance of the public rights involved, had the following to say:

> "We do not overlook the importance of not applying so narrowly the patent law as to discourage the inventor from exercising his creative genius, or the manufacturer or capitalist from assisting in the necessary work of bringing the invention into beneficial use; but it is no less important that the law shall not be so loosely construed and enforced as to subvert its limitations, and bring about an *undue extension of the patent monopoly against private and public rights.*" *Webster Electric Company v. Splitdorf Electrical Company*, 264 U. S. 463, 68 L. Ed. 792, p. 794. (Italics ours.)

While it may be said that the holding of the Court below to the effect that Gordon and Redlin were pioneers removes the patent from the type of so-called inventions referred to by Justice Bradley as a "trifling device" we submit that as the record now establishes the Gordon machine to have been utterly worthless not only to petitioner, but also to others, it falls within the category of the patents referred to by Justice Brown in *Pope v. Gormully* as "worthless patents." We cannot comprehend how a patent for a machine now established to be too inefficient to do petitioner's work can be a "pioneer" patent, at least as against petitioner which stands on the record here, as the real "pioneer," insofar as that appellation applies to the subject matter in controversy, i.e. *machining v. grinding* automobile camshafts. Indeed the decision of the Sixth Circuit Court of Appeals in *Gordon v. Walcott* (32 F. 2d 55) shows that the court based its holding of validity of the patent in suit on the purely functional distinction of the shape of the article being produced by the machine, as this was the *only* distinction between the Gordon machine and the machine of the Brophy patent. Brophy's machine had the bell crank lever referred to by the Court as being "of the essence of the Gordon invention," but as the Brophy machine was primarily designed to turn an elliptical contour, his master cams were of regular elliptical contour. To lay out master cams for any machine to produce a desired work piece is but the everyday work of any skilled machinist. Indeed the cams of an automobile engine camshaft are nothing but a series of eccentric arcs merged together and merging with the concentric base circle portion of the cam.

Patentability of a machine can not properly be predicated upon a mere functional recital in a claim describ-

ing the characteristics of its product as the only distinction over the prior art.

> *Carver v. Hyde*, 16 Pet. 513, 41 U. S. 513;
> *Knapp v. Morss*, 150 U. S. 221;
> *General Electric Co. v. Wabash Co.*, 304 U. S. 364, 371.

Yet that is the only distinction in the claims of the Gordon patent over the prior art.

Neither can a patentee have a valid patent drawn to a combination when the entire alleged novelty resides in but a single element of the combination when all the other elements thereof are old in the art.

> *Bassick v. Hollingshead Co.*, 298 U. S. 415, 425;
> *Lincoln Engineering Co. v. Stewart Warner Co.*, 303 U. S. 545, 549.

The situation presented to this Court is one wherein it is fully established that the Ford Company was perfectly willing to purchase the patented machine. It gave respondent every possible opportunity to demonstrate the usefulness of such machine. Respondent was perfectly willing to accept 10 percent of $4,335, or $433.50 as royalty for the full and unrestricted use by the Ford Company of such machine for the entire life of the machine and the Ford Company was perfectly ready, willing and able to pay such royalty. But the machine proved to be a complete failure. If petitioner had purchased each of the twenty-four machines which it bought from the Wal-

---

*The amount of $10,084.72 is 10% of the sum of the figures given in the second column of R. 162 under the heading "Cost" of the 24 Walcott lathes purchased by respondent.

cott Company from the respondent and had paid the 10 percent royalty thereon, the amount of the royalty payment would have been $10,084.76 (R. 162).* Yet, because the patented machine could not perform its intended function and was therefore "worthless," respondent is endeaving to collect, if its contention for an award of over $900,000 is recognized, over 9000% more than it would have received if the machine had not been worthless, and over 2000% if the award of the Sixth Circuit Court of Appeals in the judgment here sought to be reviewed is accepted. Certainly it was never the intention of the patent laws, as stated by Justice Bradley, "to embarrass the honest pursuit of business with fears and apprehensions of concealed liens and unknown liabilities to lawsuits and vexatious accountings for profits made in good faith" or to mulct petitioner of a sum many, many times more than it was perfectly willing to pay had the machine of the Gordon patent not proved to have been worthless.

(d) ***Respondent's Laches in Giving Notice.***

The tactics pursued by respondent in this case is particularly aggravated by its failure to give notice of infringement to petitioner. We have already alluded to the Master's statement of probability of petitioner's infringement causing damage to respondent (*supra*, 24). We asserted during the proceedings below and we still assert that no action of petitioner caused a single penny's worth of damage to respondent. Respondent's president and inventor, Gordon, testified that he saw the Walcott machines in the Ford Plant when he was there endeavoring so unsuccessfully to make his own machine work in the early part of 1924 (R. 368-9). Notice was not given until 1929 (Ex. 48, R. 1684, Master's Finding, R. 12).

We urge that the decision of this Court in the case of *Wine v. Enterprise*, 297 U. S. 387, in holding that under the statute a non-manufacturing patentee is not required to give notice does not apply to the situation in this case. We submit that this Court in its decision in *Wine v. Enterprise* intended to correct the situation where, as stated by the Court, "process patents and patents under which nothing has been manufactured may be secretly infringed with impunity notwithstanding injury to owners guilty of *no negligence*" (297 U. S. 395).

We submit the situation here is clearly one of laches and equitable estoppel, for as stated by the Seventh Circuit Court of Appeals in *Rome Grader & Machinery Corp. v. Adams Manufacturing Co.*, 135 F. 2d 617, 619, there must be a "balancing of equities" and "it is inequitable for a person to sleep on his rights for years and lead another to think that the latter is safe". It must be remembered that respondent's scheme to collect from petitioner depended upon the continued use by petitioner of the infringing Walcott machines. It must also be remembered that respondent has vigorously contended throughout the accounting proceedings that it was entitled to collect ¾ of 1c per cam or 6c for every one of the millions of eight-cam camshafts made by petitioner on the infringing machines so that respondent had every incentive to want petitioner to continue its use of the infringing machines.

We mention these facts first to show the monstrous inequity to petitioner that would enable respondent as a result of its scheme to release the Walcott Company from whom petitioner purchased the infringing machines in good faith in the open market and under a patent guarantee clause and meanwhile, with full knowledge of peti-

tioner's use of the infringing machines, to permit such use to continue for years without protest and then finally collect alleged profits on the production of over 8,000,000 camshafts by petitioner on the said infringing machines (R. 17).

(c) *Birdsell v. Shaliol does not apply to the situation here.*

We feel confident, as we stated above, that this Court when it handed down its opinion in *Birdsell v. Shaliol* nearly sixty years ago never intended to establish a precedent that would enable the scheme, seized upon by respondent, to be perpetuated for the future, as one having the full sanction of the patent law and the authoritative approval of this Court. In this connection we refer again to the language of Chief Justice Bradley in *Atlantic Works v. Brady, supra,* also enunciated sixty years ago, concerning "the process of development in manufacture", "the constant demand for new appliances", "the skill of ordinary head workmen and engineers" as of that time. The prodigious growth of all of these factors in the three score years which have elapsed needs no comment. When, added to this, due cognizance is taken of the fact that it is not at the present time, and was not in 1924, the practice of machine tool manufacturers to ask for, or receive, a royalty for the use of machine tools (Wibel R. 506-8, Oberhoffken R. 1110-11), and that respondent never asked for, or received, a royalty from any purchaser of its machines (R. 281-2) and, therefore, never expected to make any profits resulting from a purchaser's use but instead patentee Gordon accepted (R. 318) a royalty payment of 10 percent on all of the machines which were sold by respondent to users and which royalty covered the manufacture and sale as well as the unrestricted use thereof, it will be seen that the situation as to the facts is not at all akin to the situation present here.

The *factual situation* in the present case is much more apposite to that presented in the case of *Steam Stone Cutter v. Sheldons,* 21 Fed. 875, decided October 7, 1884 (C. C. Vt.) on exceptions to the Master's report than it is to *Birdsell v. Shaliol.* As shown in an earlier opinion by the same Court (see *Steam Stone Cutter v. Sheldons,* and others, 15 Fed. 608, C. C. Vt.), that case had to deal with a situation wherein the defendants were purchasers of machines sold by a concern known as the Windsor Manufacturing Co., which had infringed the Steam Stone Cutter Company's patents by making and selling. The Windsor Mfg. Company sold the infringing machines to its purchasers who were the defendants, with a guarantee of the right to use (15 Fed. 608). The Stone Cutter Company, the owner of the patents, had brought suit against the Windsor Company (*Steam Stone Cutter Co. v. Windsor Mfg. Co.,* 17 Blatchf. C.C. 24) and obtained a decree for recovery. It recovered some money upon that decree and "caused real estate to be set off on execution in satisfaction of the balance" (15 Fed. 608).

The title to the real estate being in litigation, the Steam Stone Cutter Company claimed it had not received full satisfaction (21 Fed. 876). In the earlier case at 15 Fed. 608, the defendant-users presented a motion for dissolution of an injunction, which motion was granted by the Court on the grounds that if satisfaction was received by the patentee from the Windsor Company, the machines in the hands of the users would be freed from the • • • monopoly (15 Fed. 609), or that further compensation could be made to the plaintiff in the accounting to be had by the plaintiff. In the case at 21 Fed., the Court held that as the Windsor Mfg. Co. had "authorized and promoted the use" the defendants and the Windsor Company were "joint tort feasors as to the use" (21 Fed. 877).

Although the case of *Birdsell v. Shaliol* has been cited for the proposition that infringing manufacture and sale of a device and infringement by use of the same article so manufactured are separate and distinct torts, the case does not in fact so hold, for this Court, after discussing the law of England with respect to judgment against "one of two tort feasors", rested its decision in the *Birdsell* case on the following stated grounds:

> "By our law, judgment against one joint trespasser, without full satisfaction, is no bar to a suit against another for the same trespass." (Citing *Lovejoy v. Murray*, 3 Wall, 1.)

As a matter of law the decision of this Court in the *Birdsell* case which rested upon the sole proposition that under this Court's own prior decision in *Lovejoy v. Murray, supra*, the release of "one joint trespasser without full satisfaction is no bar to a suit against another for the same trespass," is no longer authority for *that proposition* since the recent decision of this Court in *Tompkins v. Erie*, 304 U. S. 64, has so definitely established that in all cases, "whether local in their nature or 'general', be they commercial or a part of the law of torts" in absence of Federal Statute, the State law shall control.

Insofar as the sale by the Walcott Company to the Ford Company was concerned, it was entirely a Michigan sale, the Walcott Company being located in Jackson, Michigan, and the Ford Motor Company in Dearborn, Michigan. Likewise the compromise settlement, by the terms of which the Gordon Company accepted $1.00 as nominal damages and $4,000.00 as "costs" and waived an accounting, was also effected in Michigan.

There being no Federal law dealing directly with the question that the release of one joint tort feasor releases the others, the compromise settlement made by the Gordon Company with the Walcott Company must, therefore under the authority of *Tompkins v. Erie R. R., supra,* be construed in the light of the Michigan law. The law in Michigan on this subject is thoroughly established, the cases holding that the discharge of one tort feasor in Michigan, as a *matter of law* operates to discharge his co-tort feasor, even though the agreement to release specifically reserved the right to proceed against the other tort feasors.

In *McBride v. Scott,* 132 Mich. 176, 93 N. W. 243, wherein the question was thoroughly discussed, the Court stated—

> "We are of the opinion that the better rule is that contended for by defendants in this case, that to admit of a settlement with one tort feasor under such circumstances as are here presented, and to hold that a reservation such as is here attempted saves the right as to other tort feasors, would open the door for the plaintiff in any case to acquire by successive settlements more than just compensation; or, as is said in Brown v. Kencheloe, supra, 'The plaintiff in many instances would operate upon the fears of the defendants, and get from each full damages for the trespass committed'."

See also *Sunlin v. Skutt,* 133 Mich. 208, 94 N. W. 733, and *MacDonald v. Hornblower & Weeks,* 268 Mich. 626, 256 N. W. 572.

The language which we have quoted above from the case of *McBride v. Scott* is particularly apposite to the situation presented here wherein the action of the respondent, Gordon Form Lathe Company, in making its

compromise settlement with the Walcott Company for the stated sum of $1.00 as nominal damages, was carefully calculated to "open the door * * * to acquire by successive settlements more than just compensation." Indeed the effort proved highly successful in the collection by plaintiff of $264,521.20 (R. 962) from various automotive companies who were members of the Automobile Chamber of Commerce and who were bound by the decree in the *Walcott* case, the defense of which had been taken over by the Chamber (R. 519, 932).

It is true that since, the decision of this Court in *Birdsell v. Shaliol,* there have been many cases which hold, on its authority, that where there has been a full recovery of profits, or damages, from a manufacturer and seller of an infringing machine, such recovery does not release the same machines for re-sale or use in the hands of a purchaser and therefore the owner of the patent may proceed against subsequnt purchasers or users.

One of such cases is *Dowagiac Mfg. Co. v. Deere & Webber Co.,* 284 Fed. 331, which refers to *Steam Stone Cutter v. Sheldons, supra.* In the *Dowagiac* case the Sixth Circuit Court of Appeals also refers to the case of *Stebler v. Riverside Heights Orange Growers' Ass'n et al.,* 214 Fed. 550 (C.C.A. 9)*, and intimates that case is contra the weight of authority. In the *Stebler* case, however, the Ninth Circuit Court of Appeals, after stating the facts to be "that the plaintiff was not a user of the patented machines and that he derived his profit from his patents solely by the manufacture and by the unconditional sale direct to the users of the patented machines, could not, after final decree had been rendered against the manu-

*Application for certiorari to this Court was made in the *Stebler* case and was denied, 231 U. S. 748.

facturing infringer, sue the users of such infringing machines and that a decree against the infringer for the profits it received by reason of the sales of the infringing machines," together with whatever damages the plaintiff may have suffered by reason thereof

> "must be held to vest the right to the use of the machines in the defendant's vendees free from any further claim by the patentee." (214 Fed. 554.)

The Court (9th C.C.A.) discussed the case of *Birdsell v. Shaliol* and pointed out the distinction between the situation presented to it and that before this Court in *Birdsell v. Shaliol.* The same factual distinction exists in the case at bar.

The Sixth Circuit Court of Appeals in the *Dowagiac* case (284 Fed. 331) states there are very few cases since the decision of this Court in the *Birdsell* case which sustain the doctrine of the *Stebler* case and it discusses the cases of *Callaghan v. Myers,* 128 U. S. 617; *Kryptok Co. v. Stead Lens Co.,* 190 Fed. 767; *Philadelphia, etc., Ins. Co. v. Edison Electric Light Co.,* 65 Fed. 551; *DeLaski & Thropp v. Empire R. & T. Co.,* 239 Fed. 139. All but the *DeLaski* case involved the re-sale by retailers of the infringing devices. Recovery of the profits from the infringing manufacturer from whom the retailer purchased the infringing articles is quite a different situation from that presented here. A manufacturer who sells articles under a patent, or the owner of a copyright who sells books under a copyright, to a retailer for resale, has his market seriously impaired by re-sale of the infringing devices. Therefore, the recovery of the manufacturer's profits from the infringing manufacture is no criterion as to the damages that may result to the patentee from the re-sale by a retailer. Neither do the profits recovered

from the infringing manufacturer bear any relation to the profits realized by the infringing retailer.

In the *DeLaski* case "the plaintiff always derived its pecuniary benefit from the patent by making machines and licensing others to use them upon the payment of a royalty * * *" (239 Fed 144). The recovery of the profits of the infringing manufacturer was not, as held in the *DeLaski* case, the measure of the pecuniary loss suffered by the patentee in being deprived of its royalties for use. So all of these cases are clearly distinguishable from the *Stebler* case, *Stone Cutter v. Sheldons, supra,* and the case at bar.

In the *Dowagiac v. Deere* case, the Sixth Circuit Court of Appeals refers to the following language of this Court in *Dowagiac Mfg. Co. v. Minn. Moline Plow Co., supra,* at 235 U. S. 648:

> "As the exclusive right conferred by the patent was property and the infringement was a tortious taking of a part of that property, the normal measure of damages was the value of what was taken."

Applying this statement to the situation here, the "normal measure of damages" here and "the value of what was taken" here was, as we have heretofore shown, plaintiff's own established 10 percent royalty but that should have been recovered by respondent from the manufacturer, the Walcott Company, in the *Gordon v. Walcott* litigation. It covered *manufacture* and *sale* as well as use.

This Court in the *Dowagiac* case stated in the sentence immediately following the one above quoted:

> "So, had the plaintiff pursued a course of granting licenses to others to deal in articles embodying the invention, the established royalty could have been

> proved as indicative of the value of what was taken, and therefore as affording a basis for measuring the damages."

In the *Dowagiac* case this Court sent the case back to be re-committed to the Master for the purpose of enabling the parties to submit further evidence on apportionment (235 U. S. 650).

This Court later in *Union Tool Co. v. Wilson*, 259 U. S. 107, held that where

> "a patentee, in demanding and receiving full compensation for the wrongful use of his invention in devices made and sold by a manufacturer adopts the sales as though made by himself, and therefore, necessarily licenses the use of the devices, and frees them from the monopoly of the patent."

Unquestionably had respondent here pursued its remedy against the Walcott Company instead of releasing the latter, it could have recovered its full compensation for the wrongful use of the invention. Indeed, the Bill of Complaint in the *Walcott* case charged infringement by the manufacture, sale and use.

We direct the attention of the Court to the comparatively recent case by the Seventh Circuit Court of Appeals, *Wagner Sign Service v. Midwest News Reel Theatres*, 119 F. 2d 929. In that case, in an earlier suit brought against an infringing manufacturer, the District Court held the patent in suit valid and infringed and on appeal to the Seventh Circuit Court of Appeals a supersedeas bond was filed by the infringing manufacturer and after affirmance of the holding of validity and infringement the case was referred to a Master for an accounting. Pending the accounting, the owner of the patent, the Wagner Sign Service, Inc., procured a preliminary in-

junction against the defendant Midwest News Reel Theatres. The Seventh Circuit Court of Appeals held the injunction was improvidently granted and had the following to say concerning the effect of the decision of this Court in *Birdsell v. Shaliol*:

> "Plaintiff stresses Birdsell v. Shaliol, 112 U. S. 485, 5 S Ct., 244, 28 L. Ed. 768, as sustaining its right to injunction. This case has furnished a fertile field for much controversy in subsequent decisions by inferior courts. Oftentimes, as here, it is cited and relied upon by both sides. The most that may be said of it, so far as applicable to the instant situation, is that a patentee is not precluded from proceeding against the user of an infringing device until full compensation has been received from the infringing manufacturer and seller. No supersedeas bond was involved and, therefore, the instant question was not considered." (119 F. 2d 930.)

These comments are, we submit, quite pertinent here for no voluntary release or compromise agreement was involved in *Birdsell v. Shaliol* and the instant question was not considered. The Court points out the distinction in the cases there urged upon it by the plaintiff (and as we have hereinbefore pointed out) is that such cases were ones wherein the defendant was a retailer of the infringing articles and not a *mere user*, as here, *and as in the Stebler case.*

We submit that, upon the facts of this case, *Birdsell v. Shaliol* does not govern it, that the Master and the Court below were wrong, and that the judgment below should have been for nominal damages only.

B. *POINT 2. ON THE PROPOSITION THAT AN INFRINGER IS LIABLE FOR ACTUAL AND NOT POSSIBLE GAINS.*

(a) *The Opinions below on this Point.*

This point deals solely with the simple proposition as to whether the rule of law laid down by this Court in the case of *Tilghman v. Proctor,* 125 U. S. 136 "that an infringer is liable for actual but not possible gains" (125 U. S. 151) shall be recognized as the rule of law in the Sixth Circuit or be disregarded in that Circuit. The recovery of profits in an action in equity for patent infringement is governed by Section 4921 of Revised Statutes (35 U.S.C.A., Sec. 70). The language of the Statute as originally enacted is that "Complainant shall be entitled to recover * * * the profits to be accounted for by the defendant." As amended by the Act of Feb. 18, 1922, the following was added, *inter alia,* to the Statute—"If on the proofs it shall appear that complainant has suffered damage from the infringement or that the defendant has realized *profits therefrom to which the complainant is justly entitled* * * *." (Italics ours.) The added language to the Statute clearly defines the nature of the profits for which account must be made by any defendant, as those to which the complainant *is justly entitled.*

The entire proposition raised by the point now under discussion has to do with the failure of the tribunal below to allow, as a deduction, the costs of an additional straightening operation that was actually employed by petitioner in its use of the infringing machines but which was not employed by the petitioner in the actual use of the Ford camshaft shapers adopted as a standard of comparison.

The District Court in its opinion, on objections to the Master's report (R. 118-131) did not discuss the question of the Master's refusal to allow this additional cost. The Court of Appeals based its affirmance of the Master on this question solely on the stated grounds that

> "Every reasonable presumption is in favor of the Master's report as to profits made by an infringer based on oral testimony and his report is not to be set aside unless error clearly appears." (R. Vol. V, 20-21).

In view of this statement it behooves us to scrutinize carefully the Master's report and the evidence relating to this proposition. The Master devoted about two pages of his report to the straightening operation (R. 40-42). After stating that the difference between the loss found by petitioner from the use of the Walcott machines on the Model T shaft and the profits in excess of $40,000 claimed by the respondent, and referring to the fact that the petitioner claimed that an extra straightening operation "immediately preceding the cam operation was required with the Walcott machines which was not necessary with the shaper" he then summarized the evidence as follows:

> 1. The fact that such operation appears upon the only time study for the shapers in evidence taken in 1924 is omitted from a time study taken later in the year after the installation of the Walcott;
>
> 2. The testimony of Ford employees, supplemented by that of a representative of the Walcott Company that it was found necessary to add this operation when the Walcotts were installed;
> 3. Expert testimony that the shapers had an automatic straightening action due to the downward pressure of the shaper tools forcing the camshaft

against the subjacent steady rests, while the pressure of the Walcott tools upon a shaft floating more freely in space had no such correctional tendency. (Vol. 1 R. 40-41).

The Master then stated:

"On the other hand, independent expert witnesses testified that straightening the shaft before machining the cams was always considered the proper practice with all types of machines. Brush and Pioch, defendant's principal experts, both testified that the necessity of straightening might have been eliminated by modification of the steady rest or the addition of other steady rests."

* * * * * * *

He then stated:

"Under the testimony of its own witnesses, defendant could have made the Walcotts exactly like the shapers with regard to the necessity of straightening by simple changes with respect to steady rests, but it preferred instead to adopt the straightening operation, *which was undoubtedly the better practice.*" (R. 41.)

" * * * I therefore reject this operation as an element of the cost of using the infringing machines, *not on the ground that it was not added upon their installation* (*because I think it was*) but rather on the ground that its addition was not attributable to differences between the two machines. I recognize the rule that an infringer need account only for actual and not reasonable profits (*Tilghman v. Proctor, supra,* and many other cases) but in making a comparison between two types of machinery similar factors on both sides should be kept constant, and the actual operation of the infringing machines should not be weighed against a

theoretically ideal operation of the standard of comparison." (R. 41-42.) (Italics ours.)

The Master's summarization under (1) is entirely incorrect. Petitioner's evidence showed that this extra straightening operation was *actually* used for the Walcott machines but in fact was *not used* for the shapers was overwhelming. It was conclusive and unchallenged, and the Master found it as a fact.

(b) *The evidence on the actual use of the extra straightening operation.*

This evidence consisted of the introduction in evidence of a notebook (Ex. L) of the witness Libby, a physical exhibit not reproduced in the record but photostatic copies of certain pages of which are reproduced at R. 1429-31 as Exhibit L1 to L3 (Of. 444). The authenticity of the notebook and pages reproduced therefrom, is not questioned.

The witness Libby testified that he was a foreman in petitioner's plant at Highland Park in Department T-410, the camshaft department, at the time the Ford Company was using the camshaft shapers (R. 436-437). He identified his notebook* and stated that he copied the data appearing upon the three pages Exhibits L-1 to L-3, (R. 436-437) from a time study that was in the department at the time he was foreman (R. 439); that the notations in the notebook jibed with his personal recollection of the particular operations that were performed in that department R. 440-2). He identified the time when he copied

*See also Aptekar, who identified the Libby note both as the * * * "type of notebook we were all furnished in Highland Park.", and recognized the data as a duplicate of the model T operation sheet (R. 543-4).

this time study into his notebook by reference to other notations appearing in the book and bearing dates in April 1924 (R. 443) and testified that the copy of the time study was made by him within a period of twelve months from April 1924; that the time study was available to him and that it was a part of his regular duties as a foreman when he went into a new department to get the operation sheet, as the time studies are called, (R. 449-452) as it is essential that a foreman know the cost of the part he is making (R. 452). That he was not a time study man himself and did not carry a stop watch with him so that the only place he could possibly have obtained the data contained in Exhibits L-1 to L-3 was by the making of a copy of an existing operation sheet or time study (R. 452). He further testified he did not know of any operation change that was made in the period from 1916 to 1924 (R. 458).

For convenience, a typewritten copy of the data appearing in Libby's handwriting in Exhibits L-1 to L-3 was made on an operation sheet form employed by petitioner and was introduced (R. 463) in evidence as Ex. M (R. 1432-33) and there was also introduced as Exhibit N, an operation sheet, or time study, bearing date of October 8, 1924, at which time the infringing Walcott machines had been placed in operation and which had supplanted the original shapers. A comparison of the data tabulated in Exhibits M and N shows the following:

Operation sheet, Ex. M, lists 45 operations (R. 1433) while operation sheet N lists 46 operations (R. 1435). The operations identified as A, B, C and D and the operations identified by the numerals 1 to 11 in each of Exhibits M and N are identical in all respects. Operation 12 of Ex. N is entitled "Shape Cams" which is aptly de-

scriptive of the operation performed by the shaper in rough machining the contour of the cams of an automobile camshaft. Operation 13 of Ex. N is entitled "Turn Cam Lathe" which is just as aptly descriptive of the machining operation performed by and on the infringing Walcott machines. It is to be noted that operation 12 "Shape Cams" on Ex. M is immediately preceded by operation 11 "Rough Grind Center Bearing" which is also listed as operation 11 on Ex. N. But, by reference to Ex. N it will be seen that operation 12 "Straighten" is interposed between the "Rough Grind Center Bearing" operation 11 and the "Turn Cam Lathe" operation 13 on Ex. N. The evidence of the two operation sheets taken alone is completely decisive on this point of the actual use of the straightening operation when the infringing lathes were employed and the fact that the operation was not actually employed when the shapers were used by petitioner.

It is not in accordance therefore with the facts or the record, as stated by the Master, that the operation "appears upon the only time study for the shapers in evidence taken in 1924 and is omitted from the time study taken later in the year after the installation of the Walcotts." The reverse is true, as shown by an examination of the exhibits.

The evidence shows: that these time studies are made by time study department men in petitioner's plant; that the studies are all made with a stop watch (R. 466); that they are made for use in the accounting department for cost purposes (R. 467) and as an aid to the foreman in keeping within the costs specified within the time study; that each foreman examines the time study for the purpose of seeing whether it is all right after the

time study has been made (R. 468) and that allowances are made in the figures obtained by the stop watch studies for fatigue factors and what the witness Klopsic referred to as the "personal duties of the operator" (R. 468).

The witness Marentette, the time study man who was employed by petitioner from 1915 or 1916 up to the time his testimony was taken, compared the operations as contained in the Libby notebook (Ex. L) with the operations on Ex. N and showed his familiarity with them. He stated that operation 12 in Ex. L was performed on the type of machine known as a *"shaper"* and that operations 13 on Ex. N was performed on a Walcott *lathe* (R. 488-489) and stated that the time study reproduced in Ex. L was originally prepared by him (R. 491) as he was the only time study man at petitioner's Highland Park plant in and around 1923 or 1924 (R. 491).

In addition to the above testimony petitioner produced the witnesses Shawkey and Myers who were foremen in the camshaft department, each of whom testified that a straightening operation was required immediately before the shafts were inserted in the Walcott lathes. (R. 429, 486). The following witnesses also testified that the straightening operation was not required before the shafts were placed in the Ford shaper. Libby R. II, 441), and Oberhoffken R. 1111). In addition the following witnesses testified that the straightening operation *was required with the Walcott machine but was not required with the Shapers*: Wibel (R. 500-501); Aptekar (R. 534-539, 543, 545-47); Pioch (R. 652-56); Brush (R. 768-772).

The witnesses Aptekar, Pioch and Brush gave the physical reasons why the straightening operation was not required when the shapers were used and why it was required when the Walcott lathes were used by petitioner.

The reference of the Master to testimony of "independent expert witnesses" (unnamed) that straightening of the shaft before machining the cams was always considered the proper practice with all types of machines (R. 41) is not supported by the record as the only witness who so testified was the respondent's patentee, president and chief owner Gordon who can hardly be called independent (R. 316). The only witness called by the respondent who might have been termed an "independent expert" who testified on this point was Sloniker, an employee of Nash, who had no knowledge of petitioner's shapers (R. 310) whose deposition was taken at Milwaukee, and whose testimony that *a straightening operation was employed by Nash immediately before the shafts were put into the Walcott machines* was fully corroborative of petitioner's testimony as to the necessity of the extra straightening operation before the shafts were put into the Walcott machines (R. 311-12). The other "independent" witness called by the respondent, the witness Jones of the White Company, gave no testimony at all concerning the matter of straightening. So, while the evidence of what others did in their production is not germane to the question of what were petitioner's actual costs, there is no inconsistency that could raise a question of doubt.

(c) ***The evidence on the possibility of altering the infringing machines.***

The Master stated that petitioner's witnesses Brush and Pioch both testified the necessity of straightening could have been eliminated by modification of the steady rest in the Walcott machine or the addition of other steady rests. The testimony of the witness Pioch on this point was that the addition of the steady rests "*very likely*" could have avoided the extra straightening operation and that two more steady rests "*very likely*" could have been

added to the Walcott machine (R. 672). This is a far cry from a categorical statement that the straightening operation could have been eliminated.

The witness Brush after describing fully how the action of the shaper would tend to exert an automatic straightening of any shaft that was bowed to correct the error therein and pointing out where, as with the Walcott lathes, such action would occur, stated categorically that such action would not in any way be influenced, or modified by the number of steady rests that were used on the shaft (R. 771), and that the necessity for the straightening operation would not be modified in the slightest degree by the employment of additional steady rests (R. 772). On cross-examination Brush did, in answer to questions propounded to him by the Master, state that his testimony with respect to the necessity for straightening did not apply to a steady rest having three rollers instead of two "provided the structure of the lathe is such as you are loading and unloading and would not give you any difficulty" (R. 809). This again is a far cry from an admission that the petitioner could have eliminated the necessity for the straightening operation.

In any event, petitioner used the machines as they were supplied by, and purchased from, the maker, the Walcott Machine Company. Certainly petitioner was under no obligation to change their constructions. The testimony concerning the actual use by the petitioner of the additional straightening operation was, as we have stated, overwhelming. It was not controverted.

(d) *The physical characteristics and functioning of a shaper as compared with a lathe demonstrate the necessity for using the extra straightening operation with the latter.*

Although the Master in the portion of his report which we have quoted above, stated that petitioner could have made the Walcott exactly like the shapers with regard to the necesstiy of straightening by simple changes with respect to steady rests, this statement is not in accordance with the facts for no amount of changes in steady rests could change the cold, hard facts or the physical characteristics of the two machines. In the Ford camshaft shaper the work piece rotated very slowly, making one revolution in about 25 seconds for a Model T camshaft and would take about 29 seconds for a Model A shaft (R. 705). In the infringing Walcott machine the shaft rotated at approximately 220 revolutions per minute (R. 553). In a shaper, the instant the tools strike the work piece they tend to push the work down upon the steady rests and take out any pre-existing bow in the shaft (see Ex. 272, R. 1586; also Brush R. 769-71, Pioch R. 671, and Aptekar R. 535-6, 550-56), whereas in the lathe the cutting force of the tool is exerted along a tangent line touching the circular contour of the work at a point where the tool engages and does not tend to exert a force on the shaft in a direction such as would eliminate any pre-existing bow therein (see Ex. 273, R. 1587; also Brush R. 766-69, Aptekar R. 532-5, 556-7).

The Master not only admitted that petitioner's preference to adopt the straightening operation *"was undoubtedly the better practice"*, but he also made the direct fact finding that the straightening operation was added

upon the installation of the infringing machines, yet he gave as his reason for rejecting the cost of this operation that the additional operation was not attributable to differences between the two machines. Thus he either disregarded the uncontradicted evidence or was unable to comprehend the testimony. He then stated that he recognized the rule of *Tilghman v. Proctor, supra,* but he refused to follow the rule, and gave as an excuse for not following the rule that "the actual operation of the infringing machines should not be laid against a theoretically ideal operation of the standard of comparison." The testimony with respect to the actual use of the straightening operation by petitioner was not based upon an assumed or theoretically ideal operation, but was based upon the observation of many experienced practical shopmen who had many years experience with both the shapers and the Walcott machines under actual working conditions in petitioner's plants. The Master in refusing to allow the cost of the additional operation erred egregiously in assuming a theoretically ideal operation of the infringing machines instead of the actual operation thereof. He erred further in indulging in speculations concerning the improvements in petitioner's standard of workmanship for which there is no record support and as to why petitioner did not reject the Walcott machines instead of buying more and discarding the shapers when petitioner discovered the fact that the extra straightening operation was needed (R. 41).

We submit that such speculation cannot take the place of the record evidence and thoroughly established facts. It makes no difference what prompted petitioner not to reject the Walcott machines. The point in question must we submit be decided by the facts and in accordance with the established authoritative opinions of this Court. In the old case of *Dean v. Mason,* 61 U. S. 198, this Court

held that the rule of damages is the amount which the infringer actually realized in profits and not what he might have made by reasonable diligence. Later on in *Tilghman v. Proctor, supra,* this Court reenunciated the doctrine as follows:

> "The infringer is liable for actual, but not possible, gains. The profits, therefore, which he must account for, are not those which he might reasonably have made, but those which he did make by the use of the plaintiff's invention: * * *" (125 U. S. 146; quoted and applied 309 U. S., at page 400).

Again, after enunciating the rule as stated in *Mowry v. Whitney,* 81 U. S. 620, as to the savings and advantages for which a defendant is required by law to account, it is stated:

> "In determining that question, the expense of using the new process is doubtless to be ascertained by the manner in which the defendants have in fact conducted their business, and not by the manner in which they might have conducted it." (125 U. S. 151.)

The refusal of the Master, who, while recognizing the rule of *Tilghman v. Proctor* failed to follow it and to allow petitioner a deduction for monies actually expended by it in the use of the infringing machines, is also in direct conflict with the provisions of the Statute (R. S. 4921) which provides that a complainant may only recover those profits made by a defendant to which the complainant is justly entitled. It is also in direct conflict with the pronouncement of this Court in *Sheldon v. Metro-Goldwyn Pictures Corp.,* 309 U. S. 390, as it would mean making an award to respondent of profits that were never in fact realized and would result "not in doing equity but inflicting an unauthorized penalty" (309 U. S. 405).

Although the Court of Appeals held that the Master had found the Ford Company had used the additional straightening operation and that the labor cost thereof was in the amount claimed by the Ford Company (R. Vol. V, p. 20), it adopted his erroneous conclusions (R. Vol. V, p. 21). These conclusions were not fact findings, but conclusions of law. But even if they are to be considered as fact findings they are clearly erroneous, for it was admitted by respondent's own accountant if a straightening operation was needed in the operation of the Walcott machines and not on the shapers it should be included as a part of the cost (R. 268) and his figures for "profits" should be changed to loss (R. 270-1, 275). The Court of Appeals, like the Master, based its affirmance of the Master on presumptions (R. Vol. B, 20) and stated that the Master's report was not to be set aside unless error clearly appears.

We submit that the Master's error does clearly appear, not only error as to facts, in view of the overwhelming uncontroverted evidence, but clear error of law, and that the Court below, adopting the Master's conclusions, should be reversed.

C. *POINT 3. APPORTIONMENT*

(a) *The Opinions below.*

Just as it is with the refusal of the Master and of the Courts below to permit a deduction to petitioner for the cost of the extra straightening operation actually used in the operation of the infringing machines but not used with the shapers (the standard of comparison machine), so it is with the question of apportionment, the District Court affirmed the Master without opinion on this point. Although several pages of the Master's report are de-

voted to a long discussion of the question of apportionment (R. 60-71) and a consideration of a large number of cases dealing with the question, the Master erred in his final conclusions of law on this point, as we will point out more fully. While the Court of Appeals affirmed the Master in his refusal to apportion the alleged profits, it did not rest its affirmance on the same conclusions of law, upon which the Master based his refusal to apportion, but rested its affirmance upon the more technical grounds that the Ford Company had failed to carry its burden of proof under the decision of this Court in *Westinghouse v. Wagner*, 225 U. S. 604.

(b) *The inclusion in the infringing machines of the later patented automatic Melling two-cut mechanism.*

During the accounting proceedings before the Master, petitioner introduced in evidence Melling patent No. 1,512,995; Exhibit No. 312 (R. 1640-47, Intr. R. 1171). As will be seen by an examination of this patent (see page 1, column 1, lines 21 to 32 inclusive) it relates to the provision of automatic means in a lathe and specifically a lathe for turning camshafts whereby a roughing and a finishing cut are given the workpiece together with the provision of means for adjusting the work carriage laterally to regulate the depth of the cut.

The witness, Hunt, who testified he was in charge of the designing of the Walcott lathes purchased by petitioner, Ford Motor Company (R. 559), testified that the Walcott machines that were supplied to the Ford Company included the construction disclosed in the patent, Exhibit 312, for performing the two cuts, viz. a roughing cut and a finishing cut (R. 1171). The mechanism for automatically causing the two-cuts to be performed has

nothing whatsoever to do with the means for oscillating the cutting tool. The two-cut mechanism would be capable of employment in any lathe for the production of any type of a workpiece, irrespective of whether or not the tool is oscillated while it is performing its cutting operation. In connection with this two-cut mechanism, respondent's president and inventor, also its principal witness, Gordon, stated that one of the reasons the Walcott machine was "able to do a different job than we were, was because they took that in two cuts. They first took a rough cut and the machine automatically went back * * * and then took a second cut" (R. 369). He further admitted that as to that part of the Walcott machine, the inventor, Melling, was smarter than he was and that with respect to it, *the Walcott machine was an improvement over the Gordon patented machine* (R. 387, 388).

The patentable improvement embodied in the infringing Walcott machines and covered by the patent, Exhibit 312, was separate and distinct from the oscillating tool and the means for oscillating the tool. As the two-cut mechanism is entirely independent of the oscillation of the tool it cannot lie within the inhibited field of the Gordon patent monopoly. As to this, however, respondent urged below that as Claim 2 of the Gordon patent in suit included in it the element "means for simultaneously causing relative movement between the work holder and tool holder axially with relation to the work holder" in combination with other old and common lathe elements, this claim covered the machine in its entirety, and that therefore the later patentable improvement of the automatic two-cut mechanism invented by Melling, which is for the purpose of producing axial movement of the tool hold-

er, was covered by Claim 2, of the patent and such improvement belonged to respondent.

This argument of respondent clearly invites a holding of invalidity of Claim 2 under the rule of *Lincoln Engineering v. Stewart Warner,* 303 U. S. 545, wherein this Court held a patentee may not repatent an old combination when his invention resides in but one element thereof. Respondent, however, goes even farther. It not only claims its patent covers the entire machine, but that profits which may accrue from any patentable improvement in any element of the old combination of Claim 2 invented by others belong to it.

In addition to the above quoted last "means" clause or element in Claim 2, the claim includes (1) a rotary tool holder, i.e. a lathe chuck, (2) a tool holder, (3) a cutting tool, (4) cams, and (5) means (i.e. gears) for synchronously rotating the work holder and cams. Each and every one of these elements have been used in lathes from time immemorial, and in combination with the means for moving the tool holder axially. Yet if respondent's argument and the opinions below are sound it could recover any and all profits that would accrue to any user of any lathe that cuts work of non-circular contour even though such lathe might include a patentable improvement in every one of the five above enumerated elements and which might be wholly responsible for any of such profits.

Respondent argued below that when the patented Melling double cut mechanism was used in the infringing Walcott machines, the result was to cause the Walcott machines to perform two infringements each time they were operated instead of a single infringement. The absurdity of this argument is perhaps best illustrated by

stating that as the infringing lathes were used by petitioner for simultaneously cutting the 8 cams of an 8-cam camshaft by petitioner, each time the Walcott lathes made 2 cuts on 8 cams in finishing a camshaft, and as the means for simultaneously causing the relative axial movement between the work holder and tool holder, caused each of the 8 lathe tools in the infringing machines to traverse across the face of the cam to be machined and, as about 125 revolutions of the camshaft occurred before the tools completed one traverse across the faces of the 8 cams, then if respondent's argument is sound on the infringement occurring twice for each use of the machine, respondent could claim with equal justification that each time the infringing machines were used to finish a camshaft 8 times, 2 times 125, or 2,000 infringements occurred each time petitioner used one of the infringing Walcott machines for completing one camshaft. Surely this is a *reductio ad absurdum.*

Respondent's argument in this respect seems to have had the desired effect, insofar as the Master was concerned, for he held that as Claim 2 of the Gordon patent included the "means" element quoted above that it covered the means for doing this equally, whether one or two cuts are taken (R. 62). We shall advert to this later.

(c) *The inclusion of the valuable Blanchard principle as a patented improvement in the infringing machines.*

Petitioner also introduced in evidence as Exhibit 209, copy of the Melling patent 1,655,655 (R. 1558-66). This patent relates to the method employed in the infringing Walcott machines for tilting the tool, whereby the old Blanchard principle of operation was incorporated in the infringing machines.

Briefly, the Blanchard principle of operation was that of using a master or pattern cam which is an exact duplicate or replica of the workpiece to be produced. (The patent in suit, on the contrary, has a specially prepared master cam which is quite unlike the workpiece in form.) This is clearly shown in the Melling patent, Exhibit 209 in Fig. II thereof (R. 1559) and in Figs. VII to XI thereof (R. 1561), the part designated by the numeral 24 in each of these figures representing the master or pattern cam and the part designated by the numeral 25 representing the workpiece being cut. A cam roller or follower, 27, mounted on a suitable sliding carriage (See Fig. II, R. 1559) is held against the periphery of the master cam, 24, by suitable springs, 13. The cutting tool, 18, is mounted to oscillate upon a pivot, 16, and the distance of the point of the cutting tool, 18, from axis of the pivot axis, 16, is exactly equal to the radius of the follower roller, 27. The master camshaft, 24, and the workpiece, 25, are caused to be rotated in unison by suitable gearing mechanism and at precisely the same speed of rotation.

By reference to Figs. VII to XI, it will be seen that as the master cam, 24, is rotated in a clockwise direction, the point or line of contact between the rotating cam, 24, and the follower roller, 27, will first travel upwardly above a horizontal line passing through the axis of the roller, 27, and the axis of the pivot, 16, as the nose or projecting point of the cam moves around into contact with the surface of the follower roller, 27. The point, or line of contact, then travels downwardly until the nose of the cam lies on the said horizontal line, as indicated in Fig. VIII, and then as the nose of the cam travels below the horizontal line the point, or line of contact between, the cam and follower passes below the horizontal line. If the cutting point of the tool, 18, is made to travel upwardly and downwardly above and below the horizontal

line, passing through the axis of rotation of the follower, and the axis of oscillation of the tool and so that the cutting point of the tool will always be located on the same horizontal line as the point of contact between follower roller and the master cam, 24, the contour of the workpiece, 25, being produced will inevitably be precisely identical with, and an exact replica of the contour of the master or pattern cam. This Blanchard principle may be carried out irrespective of the diameter of the follower roller, 27, as long as the distance between the point of the tool and the axis upon which it oscillates is made equal to the radius of the follower roller. Indeed, it is not necessary that there be any oscillation whatsoever of the cutting tool because if a vertically extending perfectly plane surface is employed as the follower, the Blanchard principle may then be carried out by a straight vertical or up or down reciprocation of the tool without resorting to any tilting or oscillation of it. This identical straight line reciprocation of the Blanchard type of tool was involved in an early litigation on the Blanchard 1819 patent in the case of *Blanchard v. Eldridge*, 3 Fed. Cas. 622, wherein the straight line reciprocation resorted to by the defendant, Eldridge, was held by the court to constitute an infringement of the original old Blanchard patent.

It was with respect to the incorporation of the Blanchard principle of operation in the infringing machines, that the Court of Appeals in the case of *Gordon v. Walcott* stated—

> "Doubtless the use of the Blanchard lathe principle to produce reciprocatory movement, the use of the circular guide plate of relatively large proportions, as compared with the work, and the resulting pivoting of the tool at a point substantially removed from its point, was a valuable improvement, which perhaps was patentable as such. But

> superiority of operation does not, of necessity negative infringement." Gordon v. Walcott, 32 F. (2d) 55 at page 61, (R. 1357-1358.)

This was written before the issuance of the patent to Melling now under consideration, made the surmise of the Court a certainty.

Granting that the superior operation resulting from the use of the Blanchard principle in the infringing Walcott machines does not, as held by the Court in the above quotation, negative infringement, still this holding of the Court of Appeals in the earlier *Gordon v. Walcott* case does not form a precedent or authority for the proposition that the superiority of operation which unquestionably resulted from the use of the Blanchard principle in the infringing lathes and which was solely responsible for any profits made by petitioner caused such profits to become the property of respondent and profits which, under the statute, respondent is "*justly entitled.*"

Respondent's principal witness, its president and inventor Gordon, on cross-examination testified that he was familiar with the Melling patent (Exhibit 209), and that the structure shown in the patent is a correct representation of the Walcott machines as used by the petitioner (R. 382). He was then taken over the elements of Claim 13 of Ex. 209 (see page 4 of the patent, column 1, lines 30 to 44, R. 1565) and admitted that the infringing machine contained all of the elements set forth in the said claim and that such elements functioned as described in such claim (R. 383-384). Petitioner's expert, Brush, testified to the fact that in the infringing machines the point of the tool traversed a path that was an exact replica of the curve or circumference of the follower roller, and he too showed that the structure incorporated

in the infringing machines responded fully to the terms of Claim 13 of the patent (R. 780-781). He then testified that the operations or characteristics defined by the language of Claim 13 and as performed in the Walcott machine were *"just as different from the method of operation performed by the Gordon patent as they could be* and still have a change in the angular position of the tool" (R. 782).

It should be borne in mind that the record had already established in the main trial on validity and infringement, that the Gordon machine had failed after having been given every possible opportunity to machine petitioner's products and that the Sixth Circuit Court of Appeals in its opinion in the case of *Gordon Form Lathe Co. v. Ford Motor Co.*, 87 F. 2d 390, had held the inefficiency of the Gordon machine, rendered it of dubious practical value in petitioner's plant. This was further emphasized by the record in the accounting proceedings which established that the Jackson Motor Shaft Company and International Harvester Company had the same experience with the patented Gordon machine as petitioner and that both of these companies had rejected the machine and returned to the grinding of the cams (*supra*, 7, 10).

It having also been established that the infringing Walcott lathes had proven much more efficient than, and vastly superior to, the patented Gordon machine, the witness Brush testified as follows:

> "Q. Now will you state, whether or not, Mr. Brush, the difference in the functioning of the Melling machine, or the Walcott machine, as defined by the claims of the patent which you have just been discussing, would in any measure, be re-

sponsible, or in any measure contribute towards the more, the greater efficiency of the Melling machine as a production machine as compared with the Gordon machine?

A. Its movements as defined by the claims and as embodied in the Melling machine are wholly responsible for the greater efficiency of the Melling machine in the production of the workpiece, such as the Ford Model A cams" (R. 783).

He also testified to the same effect with respect to the Fordson cam (R. 783). He then gave his reasons for his testimony (R. 783-791). Later he testified that the proportionate increase of efficiency because of the differences between the Gordon patented machine and the Walcott machine, insofar as the operation of the two machines at petitioner's plant were concerned, was *"just 100% due to these differences* (R. 794). Respondent offered no evidence whatsoever to controvert this testimony but, as stated by the Master, it relied upon its legal contention that the doctrine of apportionment was not applicable to the case at bar (R. 69-70).

(d) *The Tilting or Oscillating Tool is not necessary or essential to the successful functioning of the infringing machines.*

Petitioner introduced (R. 1174) in evidence a third patent to Melling, No. 1,634,550 (Ex. 313, R. 1648-52) and also a blueprint of the Walcott Machine Company entitled "Assembly of New Style Parallel Tool Head" as Exhibit 314 (R. 1653). The witness Hunt testified with respect to the construction shown in the patent (Ex. 313) and the blueprint (Ex. 314) to the effect that in this type of construction the tool does not tilt to maintain a uni-

form angle normal to the work; that it was not necessary or essential in employing the Blanchard principle as it is used in the Walcott machines to tilt the tools (R. 1174), and that machines equipped with the parallel moving, non-tilting tools of Exhibit 313 produced as many shafts per hour as did the machines with the tilting tools (R. 1182). Petitioner further introduced (R. 1180) in evidence a print of the Walcott Machine Tool Company (Ex. 315, R. 1654) showing a still further improved type of tool head in which the tools have a definite straight line up and down reciprocation. This tool head also operates on the Blanchard principle and by its use, as testified to by Mr. Hunt, the machines were able to turn more cams than on the old tilting type machine (R. 1175).

As it was with the testimony of Mr. Brush so it was with the testimony of Mr. Hunt. Respondent made no effort to controvert such testimony. It establishes that there was *an alternative way open to defendant to machine its cams without utilizing the "tilting tool," which is the sole element of advance found to exist in the patent in suit.*

(e) *Analysis of the Master's Opinion on Apportionment.*

After holding, as a matter of fact, that the Gordon machine was impractical for the machining of Ford cam shafts (R. 61) that the Walcott machine had two improvements over the Gordon machine for which patents were issued subsequent to the issue of the Gordon patent in suit, the Master stated: *"It seems clear without these two improvements no savings would have been realized by defendant"* (R. 61-62).

He next stated what we submit is clearly in error, in view of the evidence as outlined above: "Without the basic Gordon idea of oscillating the tools to maintain proper cutting angles, the Walcott machine would be only an ordinary lathe." We submit the showing of Exhibits 313, 314 and 315, together with the testimony of the witness Hunt with respect thereto clearly shows the Master was in error in this conclusion. In addition to the testimony of the witness Hunt, the witness Brush also testified to the same effect, namely, that if the tool in the Walcott machine just travelled straight up and down and didn't swing at all, it would still be capable of performing its intended function and that the swinging of the tool in the Walcott machines was merely an incidental or accidental fact (R. 784-785).

The Master then refers to the cases on apportionment where the plaintiff's patent covers an improvement or covers only a part of the structure. We submit that, insofar as tilting of the lathe tool is concerned to hold it normal to the work, the Gordon patent covered a mere improvement because that was fully disclosed in the Brophy patent as discussed by the Court of Appeals in *Gordon v. Walcott*, 32 F. 2d 55, at 57 (R. 1351). The only distinction the Court of Appeals was able to seize upon between the old Brophy lathe and the Gordon lathe was that Brophy did not suggest means for cutting a so-called non-geometric form but merely an eccentric form. In other words, the court differentiated the patent of the Gordon machine from the prior art by the mere functional differences in the shape of the product being worked upon. This, we submit, is not sufficient to confer patentability (*supra*, 30-31). Even though the Court of Appeals in the *Goldon v. Walcott* case did hold the Gordon machine to be a pioneer and even though Claim 2 of the

Gordon patent by its terms may define a complete machine, the fact nevertheless remains that the Gordon invention had to do solely with the means for oscillating a lathe tool. This is but a part, and a very small part, of the entire machine. Lathes have been constructed from time immemorial with means for supporting and rotating the workpiece, for causing the tool to move to and from the workpiece, and for causing relative movement between the work-holder and tool-holder axially, provided with cams to vary the distance between the point of the tool and the axial line of the work holder and to vary the adjustment of the tool for maintaining proper cutting and clearance angles of the tool, all as set forth in Claim 2 of the Gordon patent (R. 1665, R. 1348).

After discussing numerous decided cases and referring to the two types of cases, one in which the patent covers the entire construction and the other in which the patent covers merely an improvement upon an entire construction, the Master stated "The determination of the class in which the particular case falls is not an easy matter" and "does not depend upon the language used by the patentee in his claim," citing *Egry v. Standard Register Co.*, 23 F. 2d 438 (C.C.A. 6th). Just as the Master recognized the rule of *Tighlman v. Proctor, Supra,* and refused to follow, so he, as well as the Sixth Circuit Court of Appeals refused to follow the rule of *Egry v. Standard.* A careful consideration of the Master's Report shows that he was misled by the argument of respondent into believing that the decision in this Court in *Duplate v. Triplex*, 298 U. S. 448, changed the rule with respect to apportionment of profits and that it held that the fact that the improvements were patented formed no basis for apportionment (R. 64). The *Duplate* case, however, did not deal with the question of apportionment at all but

had to do solely with an allowance or deduction claimed by the infringer in that case because patented improvements were used in the production of plate glass sheets manufactured by one of its subsidiaries and used by the infringer for completing the patented laminated "safety" glass which it sold. The claim was made by Duplate that an allowance of a reasonable royalty for the use of patented inventions employed by its subsidiary should be made and deducted from the profits. This was overruled by the Court.

The Master next discussed the rules laid down by this court in *Westinghouse v. Wagner*, 225 U. S. 604, and stated that it was difficult to distinguish the case at bar from the Westinghouse case (R. 65). He then stated that "In the case of a patented improvement which is dominated by the plaintiff's patent, the law (with respect to apportionment) *is not so clear,*" and referred to the cases upon which the respondent principally relied (R. 65). He found that the only one of them which seemed directly in point was the case of *Christensen v. National Brake and Electric Co.*, 10 F. 2d 856, a District Court case (R. 65). Reference is next made in the Master's Report to the case of *Mason v. Graham*, 90 U. S. 261. He stated that that case, if followed, *"required a decision in favor of defendant on this issue"* but the Master did not follow the rule of *Mason v. Graham*, apparently having been swayed by the respondent's argument that the *Mason* case was overruled by the *Duplate case, supra.* The Master next stated:

> "Thus, the authoritative cases seem to point to conflicting conclusions on the issue of the right to apportionment in this case, although *there is perhaps a slight edge on defendant's side of those more closely in point.*" (R. 68.)

He next discussed the question of the burden of proving apportionment and reached the conclusion that where the plaintiff's patent is for an improvement, the burden of allocating the profits between the invention and other features is on the plaintiff (R. 69). He then concluded his discussion of the subject by stating that the situation in the instant case was similar to that in the *Egry v. Standard case, supra,* wherein he stated that "the court held that the record showed no reasonable basis for apportionment. The *Egry* case was of the type involving an improvement patent so that the plaintiff was not permitted to recover any profits." But instead of following the *reasoning* of the *Egry* case (to which we earnestly direct attention) or *Mason v. Graham,* or *Tilghman v. Proctor* or *Westinghouse v. Wagner,* or *Dowagiac v. Minn. Moline Plow,* all *supra,* whose pertinence and applicability to the case at bar he recognized, he wound up his discussion of the question of apportionment with the following very unusual conclusion of law:

> "Consequently I conclude that the plaintiff is entitled to all of the profits. As between that alternative and allowing the plaintiff none, that is the fairer result." (R. 71).

(f) *Decision of the Court of Appeals*

As we have heretofore pointed out, although the Sixth Circuit Court of Appeals affirmed the Master's refusal to apportion profits, it based its refusal upon entirely different grounds than those seized upon by the Master. The Court's discussion of the question of apportionment is contained on pages 9 to 12 of Vol. V of the record. It begins its discussion with reference to the three Melling patents introduced in evidence by petitioner but its dis-

cussion of these patents is slightly garbled as it refers to patent No. 1,512,995, which is Ex. 312, as relating to a change in the method of tilting the tool in the Gordon machine. This patent does not have anything to do with the method of tilting the tool but relates entirely to the automatic two-cut mechanism, (*supra* p. 28). Neither was it in reference to this patent that the Court in *Gordon v. Walcott* stated "it was doubtless a valuable improvement" but it was with reference to the improvement covered by patent No. 1, 655,655 (Ex. 209) that this language of the Court in *Gordon v. Walcott* applies.

The Statement of the Court of Appeals (Opinion R. Vol. V) that Gordon and Redlin "taught and gave to the industry a new method for shaping camshafts which contributed substantjally to the mass production of automobiles" is simply not in accordance with the facts, for the record establishes beyond a preadventure of doubt that insofar as the machining of camshafts as distinguished from the grinding of them is concerned, it was the Ford Motor Company which was the pioneer in this regard (R. 762), the Ford camshaft *shaper* developed and used by the Ford Company as early as 1914 having been adopted and operated successfully in the mass production of millions of automobile camshafts long before the Gordon-Redlin machine had been either heard of or conceived (R. 804, 815, 1081). It is not in accordance with the fact to state that the Gordon-Redlin machine had only a moderate degree of success in shaping the camshafts of Model A cars, in the first place because it was not on the camshaft of the Model A cars that petitioner attempted to use the Gordon machine but the Fordson Tractor camshaft (R. 619) and in the second place, because it *had no success whatsoever* on such shafts but was a complete failure, not only for the Ford Com-

pany but also for the Jackson Motor Shaft Company and the International Harvester Company.

It is also not in accordance with the facts to state that Melling merely improved the Gordon machine, but it is more strictly in accordance with the facts, as found originally by Judge Simonds, to state that Melling recognized the Gordon machine was wrong in principle and that when he designed his new machine, he departed entirely from the Gordon teachings. (See Hajovich R. 1162-3). Indeed the Gordon machine was not capable of any modification, even to rebuilding, so that it could be made to work (R. 1170).

We most respectfully submit that the statement of the Court of Appeals that

> "The findings of the Master that the Ford Company enjoyed a savings from its infringement of the Gordon patent is supported by the overwhelming weight of the evidence."

is incorrect. The finding of the Master of alleged savings of $206,824.22 is not supported by the overwhelming weight of the evidence, as we have heretofore pointed out, but it is a finding that results from a clear disregard of the overwhelming weight of the evidence. This figure was found only by refusing to deduct the cost of the straightening operation, which the overwhelming weight of the evidence showed was actually employed by the Ford Company and which the Master, in contravention of the established authoritative decisions of this Court, refused to allow. This figure, moreover, is further arrived at by disregarding entirely the overwhelming weight of the evidence that any alleged advantages, or savings, attributable to petitioner's use of the infringing machines re-

sulted solely and entirely from the incorporation in the infringing machines of the added patentable improvements of Melling, which do not belong to the respondent and to which respondent is not by any means in the words of the Statute "justly entitled."

It is not in accordance with the fact to state

> "The Ford Company does not dispute the fact that it obtained substantial savings in costs through the use of the Gordon machine with the Melling improvements upon it."

The record establishes quite the contrary, for it shows that when due allowance is made for the cost of the additional straightening operation, and when the doctrine of apportionment is followed, as it should be, the Ford Company did not obtain substantial savings in costs. Moreover, petitioner consistently disputed before the Master, before the District Court, in its objections to the Master's report, and before the Court of Appeals the allegation that it made substantial savings. The Court of Appeals cites the case of *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U. S. 641, and points out that this case holds where profits are attributable to patentable improvements, which spring from other parts, or features, not covered by the patent, they belong to the infringer and that the burden rests on the owner of the patent to take the initiative in presenting evidence looking towards apportionment. The Court below recognized the rule of the *Dowagiac* case but refused to follow it. (R. Vol. V, 11-12).

The Court then quotes from *Westinghouse v. Wagner, supra,* referring to cases of confusion and wherein this court states:

> "On the plainest principles of justice the guilty trustee cannot take advantage of his own wrong."

The facts in the present case establish that the Ford Company was guilty of no wrong, that it gave respondent every possible chance to demonstrate the usefulness of its machine in petitioner's plant; that the machine proved to be an utter failure and that had the machine not proved to be a failure, petitioner would have purchased a battery of Gordon machines instead of purchasing the Walcott machines (R. 619).

The situation of petitioner in the instant case is not at all akin to that of the guilty trustee referred to in *Westinghouse v. Wagner*. It purchased the infringing Walcott machines in the open market in good faith and on the guarantee of the Walcott Company that the machines which it purchased would not infringe any United States or foreign patents. (Ex. 296, R. 1610). In this connection we refer the Court to the excellent discussion of the matter of apportionment by Judge Learned Hand in *Cincinnati Car Co. v. New York Rapid Transit Corp.*, 66 F. 2d 592 and wherein, in considering the *Westinghouse* case, he stated—

> " • • • That case has at times been thought to lay down a different rule, treating the infringer in all cases as a trustee *ex maleficio*, and therefore subject to the severe standard imposed upon malversators. A rigid insistence upon this would cast him for full profits in all cases except those in which by artificial and unreal distinctions courts should come to satisfy themselves that they could dissect the contribution of the prior art from that of the invention. This would be as unsatisfactory a result as that which imposed upon the patentee the same duty, and, while it might be answered that he is a victim, and the infringer a tort-feasor, the character of the tort ought not really to have

> such sanguinary results. Patent infringement often involves nice and casuistical questions which it is mere artifice to treat as involving moral delinquency." 66 F. 2d at 593.

To paraphrase: On established principles of equity and on the plainest principles of justice, petitioner here should not be placed in the position of "a guilty trustee" and "should not be subjected to the severe standard imposed upon malversators."

In view of the established facts, it would be a "mere artifice" to treat petitioner's purchase and use of the infringing machines as "involving moral delinquency."

In the instant case the Court of Appeals rested its opinion on the question of apportionment on the purely technical proposition of the burden of proof and held that the Ford Company had met its burden of showing that a portion of the profits was due to the use of the part of the machine not covered by the Gordon-Redlin device, but then stated:

> "but the Gordon Company having shown the commingling of profits by the Ford Company, and it appearing that the latter Company failed to keep records, or to supply evidence that would disclose what proportion of the profits arose from the infringing device and what proportion, if any, from the Melling improvements, the burden again returned to the Ford Company, which it has failed to carry and such failure creates an unavoidable liability." (R. Vol. V, p. 12.)

We submit the Sixth Circuit Court of Appeals in its opinion confuses the "confusion" referred to in that part of the Westinghouse decision which it quoted and which obviously relates to confusion deliberately wrought by a

knowingly guilty infringer, as distinguished from an innocent one, in order to conceal profits. That is not the situation here, because the Ford Company did supply evidence and it did keep records.

The fact that the records which it did keep did not segregate or allocate profits proportionately between the patented Gordon machine has no bearing on the matter of confusion for as found by the Master:

> "• • • *the confusion is not related to the books at all.* (R. 71.)
>
> • • • • •
>
> "• • • With respect to the question of records, defendant has a well organized accounting system, which has been shown to be as elaborate as is customary or necessary in the automotive infringing field. It does not keep costs by operations in producing parts, but such costs would be of little practical use outside of a patent accounting case like this, and the expense of keeping them would not be justified. Because of their physical bulk defendant can retain only a small portion of the records made daily in its plant; and it has developed an elaborate policy, embodied in written instructions, as to the length of time each type of record will be kept. So far as the records pertinent to this case are concerned, defendant's conduct can be summed up by saying that it followed rigidly its routine practice in keeping records, neither making any that it would not ordinarily have made nor destroying any for the express purpose of avoiding liability here." (R. 91.)

It could not conceivably have expected that throughout the years, from 1914 to 1924, when it was using the shapers, there would have been any point in attempting to keep the most meticulous records of the cost of but one

operation out of forty-five operations required to complete a camshaft. Petitioner could not possible have conceived that when the Gordon machine was in its plant on trial for some months, it should have had a corps of time keepers and accountants devoting their time to the making of a complete and meticulous record of the cost of everything which had any bearing on its operation, tool repair supervision, hourly output, percentage of scrap, etc, etc. The record evidence did show conclusively that the cost of operating the Gordon machine was prohibitive (R. 158-159, Herklotz R. 630-1).

Petitioner did keep records which disclosed the greater output on the infringing Walcott machines over the Gordon machines and it did offer evidence that the superior performance of the Walcott machines over the Gordon machines was due entirely to the added patentable improvements made by Melling over the Gordon invention (*supra*, 64). No other testimony could have been given that would have stated the true facts. Respondent was fully aware of this evidence and had every possible opportunity to meet or controvert it, but it did not offer a word of testimony to combat it. If there was any failure by any one to carry the burden of proof which rested upon him, under the authority of *Westinghouse v. Wagner* and *Dowagiac v. Minn. Moline Plow, supra,* the failure was entirely with respondent and that failure, we submit, under the authoritative decisions of this Court, places the plaintiff in a position where it cannot be awarded anything but nominal damages.

The entire situation here is best summed up first by reference to the statute, namely, that complainant in a patent infringement suit may only have awarded to him

of those profits to which "the complainant is justly entitled." The rule of *Westinghouse v. Wagner* is that

> "the owner of a small part of the fund is as much entitled to the protection of the law as the owner of a larger share. This rule is not intended to penalize the infringer nor to give the patentee profits to which he clearly is not entitled" (225 U. S. 620).

Yet the award of over $200,000 made in this case surely and clearly gives to respondent profits to which he is not entitled, and would indubitably result in penalizing petitioner out of all proportion to any damage inflicted upon respondent.

As stated by this Court in the recent case of *Sheldon v. Metro-Goldwyn Pictures Corp., supra,* profits are granted

> "in accordance with the principles governing equity jurisdiction, not to inflict punishment but to prevent an unjust enrichment by allowing injured complainants to claim that which ex aequo et bono, is there, and nothing beyond this." (309 U. S. 399.) "and that to make an award of profits which have been shown not to be due to the infringement would be * * * not to do equity but to inflict an unauthorized penalty." (309 U. S. 405.)

As the Court stated in that case when the complainant receives all the profits which have been

> "gained through the use of the infringing material * * * that is all that the statute authorizes and equity sanctions." (309 U. S. 406.)

The *Sheldon* case was a copyright case and the reference to the statute in the above quotation of course refers to the copyright statute, but a comparison of the copyright statute with the patent statute shows that the latter is more explicit in limiting the profits to be granted

to a complainant only to those to which he is "justly entitled."

CONCLUSION

The Court of Appeals in making an award of $206,824.22 to complainant of alleged profits has decided a Federal question in direct conflict with the appropriate decision of this Court in *Tilghman v. Proctor, supra,* in refusing to allow a deduction of the expense of the additional straightening operation found as a fact to have been used by petitioner. Instead of following the rule of *Tilghman v. Proctor,* which holds that the infringer is "liable for *actual, but not possible, gains,*" its decision holds the reverse as it held petitioner liable for *possible* but not *actual* gains.

By its award of the said sum it also decided a Federal question having to do with the doctrine of apportionment of profits in direct conflict with decisions of this Court in *Dowagiac Mfg. Co. v. Minn. Moline Plow Co., supra, Mason v. Graham, supra, Westinghouse v. Wagner, supra, Sheldon v. Metro-Goldwyn-Mayer, supra,* and *Marconi v. U. S., supra,* and in direct conflict with its own decision of *Egry v. Standard, supra.*

The alternative award of $120,000 based on $5,000 per machine as reasonable royalty, or more than 100% of the average cost of each of the 24 infringing machines (*supra* 31) purchased by petitioner, makes a mockery of the word "reasonable" as used in the statute. It would also inflict an "unauthorized penalty" upon petitioner, "would be not to do equity" and would result in the "unjust enrichment" of respondent who established a 10% royalty as the value for the manufacture, sale and use of the pat-

ented Gordon machines which it sold free and clear without any claim of royalty for their use. That is all respondent could in all honesty, fairness and in equity have claimed or recovered against the Walcott Company for the manufacture and sale and the subsequent *use* of the machines which the Walcott Company sold petitioner under a patent guarantee and for which respondent settled with Walcott for $1.00 nominal damages.

We submit that the entire award of profits or damages should be reversed and that the decree should be modified to direct nominal damages only.

DRURY W. COOPER,
I. JOSEPH FARLEY,

Counsel for Petitioner.